

By email to: [Daniel.Smyth@ato.gov.au](mailto:Daniel.Smyth@ato.gov.au)

Mr Chris Jordan  
Commissioner of Taxation  
Australian Taxation Office

30 September 2016

Dear Sir

**RE: PROVISION OF GENERAL PURPOSE FINANCIAL STATEMENTS BY SIGNIFICANT GLOBAL ENTITIES**

BDO welcomes the opportunity to provide a submission on the request from the Australian Taxation Office (ATO) for input on the new requirements for significant global entities to give the Commissioner of Taxation a general purpose financial statement if they do not lodge one with the Australian Securities and Investments Commission (ASIC).

In the annexure to this letter we provide answers to some of the questions put in the ATO consultation paper on this topic.

Should you have any questions, or wish to discuss any of the comments made in the annexed submissions, please do not hesitate to contact Lance Cunningham on 02 9240 9736, [lance.cunningham@bdo.com.au](mailto:lance.cunningham@bdo.com.au) or Sheryl Levine on 02 92409774, [sheryl.levine@bdo.com.au](mailto:sheryl.levine@bdo.com.au).

Yours sincerely



**Lance Cunningham**  
BDO National Tax Director

<b>BDO Submission re</b> <b>Provision of general purpose financial statements by significant global entities - Annexure</b>	
<b>ATO Consultation Paper Questions</b> (some questions have been summarised)	<b>BDO comments</b>
<p><b>1.</b> Do you think there is scope to minimise duplication of reporting by consolidated group members. For example if a group of entities consolidated for accounting (but not tax) purposes has more than one member which is an entity that are expected to be affected by this measure, then each such entity is required to give us a general purpose financial statement. This obligation may be able to be satisfied by giving the same general purpose financial statement relating to all of the members.</p>	<p>We believe there is scope to minimise duplication for entities affected by this requirement (referred to as ‘affected entities’ in the remainder of this submission).</p> <p>Potential actions available to minimise duplication would include allowing submission of consolidation financial statements of the:</p> <ul style="list-style-type: none"> <li>• Australian consolidated group,</li> <li>• Immediate foreign holding group, and/ or</li> <li>• Ultimate foreign holding group.</li> </ul>

2.

Under this measure (specifically subparagraphs 3CA(5) (a) (i) and (ii) of the Taxation Administration Act 1953), when must an entity prepare **general purpose financial statements** in accordance with Australian accounting standards or, instead, when may it be able to prepare general purpose financial statements in accordance with **commercially accepted principles relating to accounting**?

In Australia, a general purpose financial report (GPFR) or general purpose financial statements (GPFS) is a specifically defined term in the context of applying Australian Accounting Standards.

For public interest entities (PIEs), all disclosures required by Australian Accounting Standards are included in GPFRs.

If an entity is not a PIE (a Tier 2 entity under AASB 1053 *Application of Tiers of Australian Accounting Standards*), but is required to prepare GPFS, reduced disclosures are permitted, although reduced disclosures still contain significantly more disclosures than what would be included in special purpose financial statements.

We question the burden of requiring GPFSs for all affected entities, including at a minimum, the reduced disclosures, when a large number of these disclosures will not be useful to the ATO.

We also question whether it would be more appropriate that the ATO:

- Requires, as a minimum, the application of all recognition and measurement requirements of Australia Accounting Standards (including compliance with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*), and
- Specifically mandates disclosures contained within AASB 112 *Income Taxes* and AASB 124 *Related Party Disclosures* that are relevant and useful to the needs of the ATO.

The term '**commercially accepted principles**' is not defined in Australian tax legislation, nor is it a commonly understood term. Again, the phrase, 'general purpose financial statements' is a well understood and defined term under Australian Accounting Standards, which as discussed above, requires application of all

	<p>relevant accounting standards. By allowing submission of GPFS prepared using ‘commercially accepted principles relating to accounting’, the Commissioner runs the risk of receiving a mixed bag of information, including:</p> <ul style="list-style-type: none"><li>• Lack of consistency in recognition and measurement approach for income, expenses, assets and liabilities, and</li><li>• Different and importantly, inadequate, disclosures (because ‘accounting principles’ refer to measurement and recognition, not disclosures).</li></ul> <p>We therefore believe that as a minimum, the requirements for financial statements given to the Commissioner should include:</p> <ul style="list-style-type: none"><li>• Compliance with all the recognition and measurement requirements of Australian accounting standards</li><li>• Compliance with Australian Accounting Standards, AASB 101, 107 and 108, and</li><li>• Additional disclosures that will enable the ATO to glean relevant and useful info e.g. extracts of disclosures from AASB 112 <i>Income Taxes</i> and AASB 124 <i>Related Party Disclosures</i>).</li></ul> <p>By accepting commercially accepted principles relating to accounting, the ATO is not guaranteed to receive the information that it requires.</p>
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3.

In particular, what is your answer to consultation question (2) for an entity that:

- is required to prepare financial reports under Part 2M.3 of the *Corporations Act 2001* for lodgment with ASIC or for sending to its members

Note: The ATO requirement to lodge a GPFR differs significantly from the current requirements in Corporations Act where only reporting entities prepare GPFS. In a number of cases, in order to comply with the requirements of Part 2M.3, large proprietary companies prepare special purpose reports, applying only the minimum requirements of AASB 101, 107, 108, 1054 and 110. Therefore the impact of the proposal to require submission of GPFS will both significantly increase the amount of required disclosure by these entities, and will, in a number of cases, require the preparation of consolidated financial statements, applying AASB 10 *Consolidated Financial Statements*. We believe that any guidance from the ATO should explicitly consider the requirement to consolidate, particularly where affected entities choose to lodge individual financial statements rather than a group.

Following on from question 2., we believe the following accounting frameworks to be suitable for the following types of entities:

For entities required to prepare and/or lodge financial statements under Chapter 2M of the Corporations Act, including grandfathered large proprietary companies (regardless of whether they currently prepare general purpose or special purpose financial statements), the GPFS lodged under s3CA(5)(1)(a)(i) and (ii) of the Taxation Administration Act 1953 for these individual entities, or the consolidated Australian group, should be prepared using Australian Accounting Standards only. This is because the financial statements prepared under Chapter 2M must comply with Australian Accounting Standards anyway.

<ul style="list-style-type: none"><li>• is not required to prepare such reports under Part 2M.3 of the <i>Corporations Act 2001</i></li><li>• is relieved by an ASIC Class order from preparing such reports under Part 2M.3 of the <i>Corporations Act 2001</i></li></ul>	<p>For small proprietary companies and others relieved under various Class orders such as 98/98 and 98/1418 - if the financial statements for the <b><u>individual Australian entity, or for the Australian group</u></b>, is given to the Commissioner, we consider they should be prepared in accordance with Australian Accounting Standards (including all the recognition requirements of Australian Accounting Standards and comply, as a minimum, with AASB 101, 107 and 108). This is based on subsection 3CA(5) of the Tax Administration Act 1953 ('TAA') saying that where the 'accounting principles' do not apply in relation to the entity, the GPFS must be lodged in accordance with commercially accepted principles related to accounting. In Australia, what do 'commercially accepted principles relating to accounting' mean, apart from the Australian Accounting Standards. There are a number of accounting methods currently in use for non-reporting entities but none that could be seen as being the 'accepted' method. In addition the <i>Income Tax Assessment Act 1997</i> generally defines 'accounting principles' as being Australian Accounting Standards.</p> <p>However, defaulting to the term 'accounting principles' in the <i>Income Tax Assessment Act 1997</i> to Australian Accounting Standards could lead to a number of potential ambiguities and restrictions in the context of section 3CA of the TAA. This is because the application paragraphs contained within each Australian Accounting Standard typically restricts the application of each standard to either a company reporting under Chapter 2M, or an entity preparing GPFS, which would otherwise not apply to entities that do not have to prepare GPFS. As the proposal stands, the requirement to produce GPFS will alleviate this problem. However any move to alter the requirements to produce GPFS (for example as we have noted in 2. above) would require explicit guidance as to which Australian</p>
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<ul style="list-style-type: none"> <li>chooses to give us a general purpose financial statement that relates to the entity and some, or all, of the members of the consolidated group of which it is a member for accounting purposes?</li> </ul>	<p>Accounting Standards should be applied in full.</p> <p>The ATO needs to clarify which consolidated groups satisfy the requirements of these requirements, i.e.:</p> <ul style="list-style-type: none"> <li>Ultimate global parent, or</li> <li>Immediate consolidated group.</li> </ul> <p>We believe that any such consolidated financial statement should comply with the requirements of AASB 10 <i>Consolidated Financial Statements</i>, and therefore selective inclusion or exclusion of group members should not be permitted.</p> <p>As a practical expediency, and to reduce cost and effort, for foreign groups to which the Australian affected entity is a member, we believe the ATO should consider allowing the following high quality accounting standards;:</p> <ul style="list-style-type: none"> <li>International Financial Reporting Standards (IFRS) (in English), published by the International Accounting Standards Board (IASB), or</li> <li>US GAAP.</li> </ul> <p>Consideration should also be given on a country by country basis as to whether their local accounting standards, that are based on IFRS, e.g. Singaporean and Malaysian GAAP, would be acceptable to the ATO.</p> <p>Further consideration should be given to the acceptability of consolidated foreign accounts prepared using IFRS for SMEs, e.g. which is used South Africa.</p> <p>We note that permitting US GAAP or other local standards would require expertise in the ATO to be able to understand differences in recognition and measurement principles, compared to Australian Accounting Standards/IFRS.</p>
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<p>4. If, under this measure, you are required to lodge a general purpose financial statement prepared in accordance with Australian accounting standards, but you prepare your financial reports in accordance with other accounting principles, what additional disclosures or changes (if any) may be needed so you can give us a qualifying general purpose financial statement based on your existing financial reports?</p>	<p>As discussed in 2. above, we believe that the term ‘accounting principles’ is ambiguous and it should be clearly stated that GPFS should be prepared using world class accounting standards, such as IFRS, local equivalents to IFRS, or US GAAP.</p> <p>In respect of measurement differences, we believe a reconciliation table should be included, noting that application of IFRS or local IFRS is unlikely to result in significant differences compared to Australian Accounting Standards, whereas US GAAP reconciliations may prove very costly to prepare, and will likely highlight differences that are not necessarily relevant to the needs of the ATO.</p> <p>A major issue where alternative accounting standards are used is the disclosure requirements for example the disclosures under USGAAP or IFRS for SMEs differs significantly from Australian Accounting Standards. Again, we believe that the ATO should consider the minimum disclosures that financial statements need to contain (rather than all GPFS information that may not be useful to the ATO), in particular, disclosures relating to AASB 112 <i>Incomes Taxes</i> and AASB 124 <i>Related Party Disclosures</i>.</p>
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5.

Do you agree the entities most likely to be affected by the different views outlined in paragraph 17 are those that we have identified in paragraph 18?

Yes we agree that the entities most likely to be affected by View 1 (i.e. must apply Australian Accounting Standards if you are required to prepare financial statements under Chapter 2M) are the grandfathered large proprietary companies that currently prepare special purpose financial statements (SPFS), as well as other entities preparing SPFS under Chapter 2M. This is because View 1 would require GPFS under Australian Accounting Standards, whereas View 2 would give the choice of other commercially accepted accounting principles (although these are not defined).

As discussed previously, entities preparing accounts under Chapter 2M.3 that are currently deemed **not to be reporting entities**, do not prepare GPFS, and instead prepare SPFS. For these entities currently preparing SPFS, this will introduce the requirement for extensive disclosures, as well as the requirement to prepare consolidated accounts under AASB 10.

**Additional comments on Flowcharts 2 and 3**

We would further like to bring to your attention our concerns as to the clarity of the information in flowcharts 2 and 3.

The consultation paper says that the flow charts in figure 2 would assist in determining whether the first view was correct, and figure 3 would assist in determining whether the second view was correct. However, our reading of paragraph 17 and figures 2 and 3 indicates that there is no direct correlation between figure 2 and the first view, or between figure 3 and the second view. In fact the figure 2 and 3 seem to incorporate aspects of both views 1 and 2. For example:

- First view assumes that the Australian affected entities must apply Australian Accounting Standards (e.g. entities required to prepare financial statements under

	<p>Chapter 2M). The first view in paragraph 17 is saying that Australian Accounting Standards must be applied, regardless if whether the Australian accounts, or global accounts are lodged. If you follow the flowchart in Figure 2 and assume you would be lodging the Australian accounts, the flowchart works. However, if you assume you will lodge the global accounts, one could assume that the second box “You are subject to the reporting requirements in Part 2M.3 of the <i>Corporations Act 2001</i>” does not apply to the global accounts, and therefore land up in ‘commercially accepted accounting principles’, which does not seem to be the objective of this view, and</p> <ul style="list-style-type: none"><li>• Second view seems to be saying that if you choose to lodge the Australian entity GPFS then Australian Accounting Standards apply. If you choose to lodge the global parent group’s accounts, then you have a choice to apply commercially accepted principles. However, the last sentence of the narrative that precedes figure 3 seems to direct a global parent back to Figure 2, i.e. “If you are the entity for which the financial statement is prepared (<u>for example, you are the global parent</u> or choose to give a general purpose financial statement that relates only to you), then this flow chart does not apply to you and you should refer to Figure 2 instead.”</li></ul> <p>We suggest these connections between views 1 and 2 and in figures 2 and 3 need to be better articulated. Having said that, we outline below our thoughts on the merits of the first and second views:</p> <p><b>First View:</b></p> <p>If all affected entities are required to prepare their GPFs in accordance with Australian Accounting Standards it will create an enormous</p>
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	<p>extra compliance burden for these entities that have their regular accounts prepared in accordance with their global parent's country requirements (e.g. US GAAP).</p> <p><b>Second View:</b></p> <p>If the affected entities can provide accounts prepared under their global parent country's accounting standards, there may be a large variance in amounts reported in the accounts that will be lodged with the ATO, and would require expertise in the ATO to interpret different accounting frameworks</p> <p>We question the value to the ATO of some such accounts, particularly where the global head is in a country that does not prepare IFRS or US GAAP accounts.</p>
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<p>6. For the purposes of this measure:</p> <ul style="list-style-type: none"> <li>• What do you consider to be 'commercially accepted principles relating to accounting'? Must such principles be commercially accepted in Australia?</li>   <li>• How can you show us that:             <ol style="list-style-type: none"> <li>i. the accounting principles you have applied in preparing your financial statement or consolidated financial statement are <u>commercially accepted principles relating to accounting</u></li>   <li>ii. the standalone financial statement or consolidated financial statement you give to the ATO is a 'general purpose financial statement'?</li> </ol> </li> </ul>	<p>As stated in 3. above, we believe that the only 'commercially accepted principles relating to accounting' in Australia are:</p> <ul style="list-style-type: none"> <li>• Australian Accounting Standards</li> <li>• International Financial Reporting Standards (in English) as issued by the International Accounting Standards Board (IASB)</li> <li>• Selected local equivalents of IFRS, and</li> <li>• US GAAP.</li> </ul> <p>We believe that allowing anything other than the above frameworks will lead to confusion and lack of clarity as to the required disclosures. However, if an accounting principle is use that is not in line with Australian accounting standards, there should be a reconciliation as to the impact of not applying the accounting standards, and/or a clear statement as to which measurement requirements of the Australian Accounting Standards have not been complied with.</p> <p>If the ATO chooses not to specify these three frameworks as the only alternatives to being 'commercially accepted accounting principles', and chooses to permit others, we suggest that the ATO consider a risk analysis approach by allowing the affected entities to choose to lodge either:</p> <ul style="list-style-type: none"> <li>• Accounts prepared under Australian Accounting standards (either their own or their global parents) or</li> <li>• Their global parents accounts prepared under the accounting standard of the parent's country of origin.</li> </ul> <p>This decision could be made subject to how the entity sees its risk profile with the ATO. The ATO already provides details of such a risk profile to many large corporate entities.</p>
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	<p>If the global parent's accounts are prepared under a well-recognised accounting framework IFRS in English or US GAAP, the risk for the ATO in misinterpreting the accounts is much lower.</p> <p>However if the global parent's accounts are prepared under a less well known accounting standard or not under any accounting standards, the entity may have to accept that they may be presenting a higher risk profile to the ATO. If the entity's risk profile with the ATO is otherwise low they may be happy to lodge the global head's accounts.</p> <p>Alternatively if their risk profile with the ATO is otherwise high they may consider it would be wise to prepare and lodge their own accounts in accordance with Australian Accounting standards.</p>
7 - 12 We have not provided any comments on consultation questions 7 to 12.	