

Submission on applying the International Accounting Standards Board's (IASB) Revised Conceptual Framework and solving the reporting entity and Special Purpose Financial Statement (SPFS) problems

5 November 2018

The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission on the issue of applying the International Accounting Standards Board's (IASB) Revised Conceptual Framework and solving the reporting entity and Special Purpose Financial Statement (SPFS) problems.

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 consultation paper, 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."

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 (GPFSSs) and others preparing SPFSs based on different self-assessments. The TJN-Aus agrees with the consultation paper "This reduces comparability for entities of similar economic circumstances and undermines the fundamentals of trust and transparency."

The following large corporations switched from providing GPFSSs to SPFSs, with the year when this happened in brackets:²

- JBS Holdco Australia Pty Ltd KPMG (2013)
- News Australia Holdings (2014)

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

² <https://www.michaelwest.com.au/special-purpose-approach-by-accountants-hides-corporate-secrets/>

- BMW Australia Ltd (2014)
- Unilever Australia (2014)
- Johnson & Johnson Pty Ltd (2014)
- Pfizer Australia Holdings Pty Ltd (2014)
- Oracle Corporation Australia Pty Ltd (2014)
- Fuji Xerox Australia Pty Ltd (2015)
- Sanofi-Aventis Australia Pty Ltd (2013)
- Novartis Australia Pty Ltd (2014)
- BUPA Australia Healthcare Holdings Pty Ltd (2014)
- Merck Sharp & Dohme (Aust.) Pty Ltd (2014)
- Roche Products Pty Ltd (2014)
- Proctor & Gamble Australia Pty Ltd (2014)
- Robert Bosch (Australia) Pty Ltd (2014)
- Adidas Australia Pty Ltd (2014)
- Avon Products Pty Ltd (2010)
- Smith & Nephew Pty Ltd (2014)

The TJN-Aus also agrees with the consultation document that the Australian reporting entity concept:

- (a) Is not well understood;
- (b) Is not applied consistently in practice;
- (c) Is too subjective for regulators to enforce effectively and accordingly does not create a level playing field; and
- (d) Increases risk for directors and those charged with governance who are responsible for determining what form of financial statements to prepare.

Q11- Do you agree with the AASB’s Phase 2 approach (described in paragraph 166)? Why or why not?

The TJN-Aus welcomes the move to eliminate SPFSs, 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 TJN-Aus would have preferred Option 3, as this option (as noted in the consultation paper) would “facilitate consistency, transaction neutrality between sectors and tiers, enable greater comparability between entities, and ensure global transferability.”

Q12 – Which of the AASB’s two GPFs Tier 2 alternatives (described in paragraphs 167 -170) do you prefer? Please provide reasons for your preference.

Consistent with TJN-Aus’s desire for greater transparency and better comparability between financial statements of entities, we prefer Alternative 1 as it better delivers these outcomes.

Q23 – Whether, overall, the proposals would result in financial statements that would be useful to users.

The proposals are an improvement on the current situation and create much better access to corporate financial information. 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.

Q24 – Whether the proposals are in the best interests of the Australian economy.

The TJN-Aus believes the outlined approach is in the best interest of the Australian economy as it will result in a more level playing field for businesses operating in Australia, as noted in the consultation paper. 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.

Further, as noted by Professor Wells:³

A benefit from increased compliance with accounting standards would be the increased ability of companies to prepare and disseminate financial reports electronically. This type of technology is not new, and will allow Australia to move into the 21st century, providing significant benefits to users of financial statements.

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³ Peter Wells, 'Challenges surface over 'special purpose' reports', *The Australian Financial Review*, 11 July 2018, p. 9.

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