



Clarity in financial reporting

New 'general purpose financial statement' requirements and their impact – Australian Tax Office (ATO) releases guidance on how it interprets the law

Introduction

Part A. Understanding the GPFS requirements

Part B. Preparing 'general purpose financial statements' under Australian Accounting Standards

Conclusion

Talking Points

- The new requirements arising under the *Tax Administration Act 1953* for the lodgment of 'general purpose financial statements' by significant global entities apply to income years beginning on or after 1 July 2016
- General purpose financial statements are required to be lodged by the due date of an affected entity's tax return (generally 7½ months after their balance date). For June balancing entities that are affected, this will be mid-January in future years, however, the ATO has provided a lodgment concession for the income tax year ended 30 June 2017, allowing lodgment by 31 March 2018 (i.e. it is only for the first year)
- The Australian Tax Office has released its guidance on how entities can comply with the 'general purpose financial statement' requirements, focusing on the taxpayer as the entity that is caught by section 3CA. This means a large proportion of general purpose financial statements will be required to be prepared in accordance with Australian Accounting Standards (subject to the transitional requirements), but there remain a number of alternative general purpose financial statements that can be lodged
- The ATO has also announced a transitional administrative approach which permits additional compliance alternatives for certain entities in the first period in which the general purpose financial statements apply to the entity. An extension of time to lodge is also available in the first year of compliance
- The ATO's guidance is in near final form and subject to an additional consultation period ending on 27 October 2017, however the ATO considers many of the issues have been finalised
- With many companies being subject to the new requirements for the first time in 2017, it is important that affected entities consider how they will meet their responsibilities and prepare for lodgment of general purpose financial statements in light of the ATO's guidance.

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Introduction

The *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015* received Royal Assent on 11 December 2015. The purpose of the Act was to introduce certain 'tax transparency' measures into the *Income Tax Assessment Act 1997* and *Tax Administration Act 1953*.

As part of negotiations with the Senate to pass the legislation, the Act was amended to include a requirement for significant global entities in certain cases to lodge a 'General Purpose Financial Statement' (GPFS) with the Australian Tax Office (ATO). These requirements are contained in section 3CA of the *Tax Administration Act 1953*.

The interpretation of the GPFS requirements was uncertain when the legislation was enacted, with many matters initially identified for clarification.

To this end, the ATO released a discussion paper on how the GPFS requirements should be interpreted in October 2016, released draft guidance in January 2017, and finalised its proposed guidance on 27 October 2017 (subject to certain additional consultation).

With the GPFS measures applying to income years commencing on or after 1 July 2016 (see section A.6), entities must now quickly come to terms with the ATO's interpretation of the GPFS requirements and determine the appropriate way forward to complying with them.

Many entities affected by the GPFS requirements may have deferred action awaiting the ATO's guidance. Now that the ATO has released its near final guidance, it is time to plan for compliance, notwithstanding that the ATO's guidance may be refined



Accessing the relevant documentation

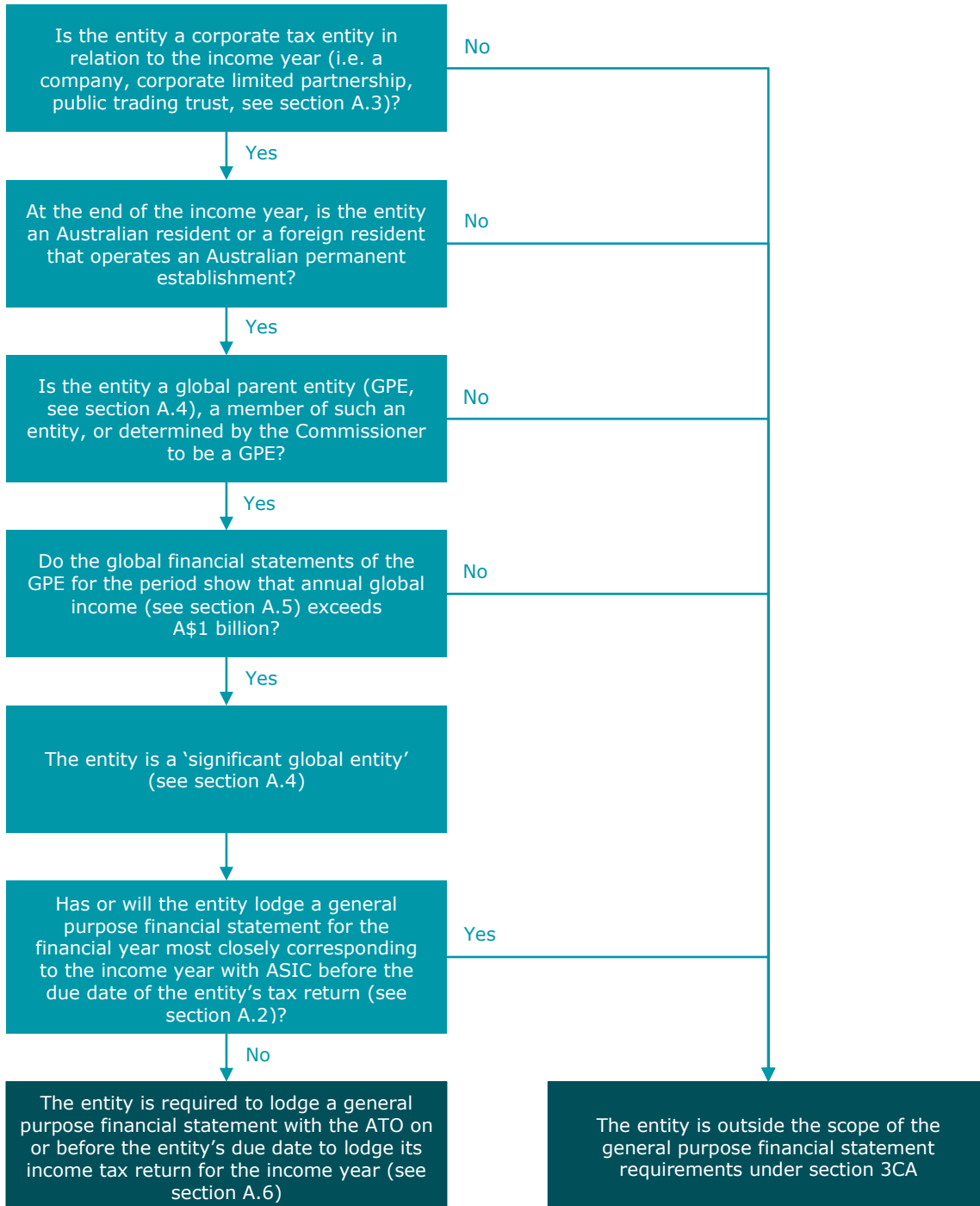
The *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015* is available at www.legislation.gov.au. The full compiled version of the *Tax Administration Act 1953* is also available at www.legislation.gov.au.

The ATO's guidance on the provision of general purpose financial statements by significant global entities is available at www.ato.gov.au. The ATO's transitional administrative approach for significant global entities required to lodge general purpose financial statements is also available at www.ato.gov.au. Both of these are subject to a further consultation period ending 27 October 2017 (see section A.8).

Part A Understanding the GPFS requirements of section 3CA

A.1 Summary

The flow chart below summarises the decision process in determining whether a particular entity (being the taxpayer) is subject to the GPFS requirements. The references are to sections of this publication.



A.2 Who is affected by the GPFS requirements?

The GPFS requirements apply to 'significant global entities' that are a corporate tax entity and either Australian resident entities or a foreign resident who operates an Australian permanent establishment (as defined in the *Income Tax Assessment Act 1936*). However, where the entity has already lodged a GPFS with the Australian Securities and Investments Commission (ASIC) within the time provided under s.319(3) of the *Corporations Act 2001*, it is not required to lodge a GPFS with the ATO.

In essence, this means that unless the entity lodges GPFS with ASIC within either three or four months of the end of its financial year (depending on the nature of the entity), the entity will instead be required to lodge GPFS with the ATO¹.



Thinking it through – Australian permanent establishments

The interpretation of 'permanent establishment' under the *Income Tax Assessment Act 1997* and *Income Tax Assessment Act 1936* is complex and subject to judgement. Foreign entities operating in Australia need to carefully assess whether they are captured by these requirements in determining whether the GPFS requirements apply. See also the ATO's specific guidance on how permanent establishments can comply with the GPFS requirements on page 15.

A.3 What is a corporate tax entity?

The *Income Tax Assessment Act 1997* includes the following types of entities as being 'corporate tax entities': companies, corporate limited partnerships and public trading trusts.



Thinking it through – Members of tax-consolidated groups or multiple entry consolidated groups

The ATO's guidance (see section A.8) deals with the situation where an Australian entity is a member of a tax-consolidated group or multiple entry consolidated (MEC) group. The ATO's guidance concludes that subsidiary members of tax-consolidated or MEC groups are **not** required to provide a GPFS to the ATO under section 3CA. There are however, specific considerations in respect of entities joining or leaving such groups during an income year (see section A.4).

In effect, the only taxpayer that exists in these groups is the head entity in the tax-consolidated or MEC group, and it is for this entity that section 3CA can be triggered. The ATO's guidance might be seen as effectively taking the view that by section 3CA linking its timeframe for compliance to the lodgment of the entity's tax return, the entity must have an obligation to lodge a tax return to be impacted by the requirements.

A.4 What is a 'significant global entity'?

Broadly, a significant global entity is any member of a consolidated group that has consolidated annual income of A\$1 billion or more. For the purposes of this definition, a single entity may be a significant global entity.

Specifically, a significant global entity is defined as:

- A 'global parent entity' (GPE) which has 'annual global income' of A\$1 billion or more. For these purposes, a GPE is an entity that is not controlled by another entity applying Australian Accounting Standards or, where these do not apply, commercially accepted principles relating to accounting
- A member of such a GPE's group, or
- In the event that global financial statements are not prepared for the period, an entity that the Commissioner makes a determination in respect of, on the basis that he reasonably believes the annual global income of the entity or the group is \$A1 billion or more.



Thinking it through – Application to purely Australian based entities

Nothing in the definition of a significant global entity requires that the entity operates on a global basis to meet the definition. Accordingly, Australian based entities that only operate in Australia can still be a significant global entity if they meet the other criteria in the definition, specifically the A\$1 billion income threshold. This has the effect of overriding the lodgment relief that currently exists for relevant 'grandfathered' companies and other companies for which ASIC provides relief under Corporations Instruments or Class Orders.

¹ Note that the ATO guidance contains administrative relief, whereby an entity can notify the ATO if it lodges GPFS with ASIC after the time provided in s.319(3) of the *Corporations Act 2001*, but before the due date for lodgment of the entity's tax return. In such instances, the ATO will consider that the entity has satisfied the obligation to provide the ATO with a GPFS.



Thinking it through – When the assessment is made and impacts of joining or leaving consolidated groups

The determination of whether an entity is captured by the requirements of section 3CA is made at the end of the entity's income year, but is also impacted by whether the entity is an income tax payer in respect of any part of the income year. Accordingly, where entities join or leave corporate groups (or tax-consolidated groups) during a period, this can impact whether or not section 3CA applies to the entity.

This approach can result in many perhaps unexpected outcomes, e.g.:

- If an entity joins a corporate group during the year and was a 'corporate taxpayer' for any part of the year, the entity can be captured by section 3CA if the global parent entity of group to which it belongs at the end of the income year is a significant global entity. This applies even though the entity may not be a taxpayer within the context of the group (e.g. joining the tax-consolidated group of the new Australian parent, or joining a multiple entry consolidated group where the joining entity is not the head entity)
- Entities which move between tax-consolidated group or multiple entry groups but which are **not** a member of those groups for the entire year (and so were a taxpayer for part of the income year) will be captured where the entity's global parent entity at the end of the income year triggers the application of section 3CA
- Entities which leave a corporate group during a year but which are not part of a group at the end of the year will only be captured by section 3CA if they meet the criteria in their own right.

A.5 What is 'annual global income'?

The annual global income of a GPE for a period is the total annual income of all the members of the group of entities that are consolidated in accordance with accounting principles in those global financial statements, or otherwise the total annual income of the entity.

The source for information for determining the amount of annual global income is the latest global financial statements for the GPE. Global financial statements must be prepared in accordance with Australian Accounting Standards (issued by the Australian Accounting Standards Board) and audited in accordance Australian Auditing Standards (issued by the Australian Auditing and Assurance Standards Board). Where these standards do not apply, commercially accepted principles relating to accounting and auditing can be applied, so long as they ensure the financial statements give a true and fair view of the financial position and performance of the entity (or consolidated entity).

In addition, the global financial statements must be for the most recent period (not necessarily the income year) for which they have been prepared, and end no later than the end of the relevant period and no earlier than 12 months before the start of the relevant period². Where the information is not in Australian dollars, translations should be performed using average rates for the period.

² This has been derived from the definition of 'global financial statements' in section 960-570 of the *Income Tax Assessment Act 1997*. The ATO guidance (see section A.8) expresses this as "the most recent period (not necessarily the income year) ending within 24 months before the end of the financial year".



Thinking it through – Understanding the nature of ‘income’

The legislation uses the term ‘income’ and uses it in the context of accounts prepared in accordance with Australian Accounting Standards, or if they do not apply, commercially acceptable principles (e.g., International Financial Reporting Standards (IFRS) or local generally accepted accounting principles).

‘Income’ is defined in the *Conceptual Framework for the Preparation and Presentation of Financial Statements* as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. Gains include those arising on the disposal of non-current assets and businesses, and unrealised gains such as financial instruments measured at fair value through profit or loss, certain investment properties measured at fair value following AASB 140 *Investment Property* and biological assets measured at fair value less cost to sell under AASB 141 *Agriculture* and foreign exchange gains (sometimes reported as ‘other income’ in the financial statements).

The ATO’s guidance indicates that annual global income is the total of income that goes to the determination of profit or loss in accordance with AASB 101 *Presentation of Financial Statements*. The guidance further explains that the definition of income under Australian Accounting Standards “includes revenue, extraordinary income, gains from investment activities and other inflows that go to the determination of profit or loss” but excludes items included in other comprehensive income.

In addition, the ATO’s Law Companion Guidelines 2015/3 (LCG 2015/3) provides an example whereby joint venture income is included in the determination of total annual global income by whichever method is used to report that income (that is, presumably either their share of income of a joint operation or equity accounted profit for a joint venture).

The ATO’s guidance clearly intends a broad reading of “income”, meaning net gains should be included in income when measuring a GPE’s global annual income. Because gains may be one off in nature, they may cause entities to move in and out of the significant global entities definition from period to period as transactions occur.

Where Australian Accounting Standards do not apply to a global parent entity, the amount of income must be prepared in accordance with commercially accepted principles relating to accounting and auditing that ensure the financial statements give a true and fair view of the financial position and performance of the entity.



Additional guidance – Investment entities

In Law Companion Guidelines (LCG 2015/3), the ATO confirms that a subsidiary of a global group that is not included in the GPE’s consolidated financial statements will not meet the definition of a significant global entity. For instance, under AASB 10 *Consolidated Financial Statements*, a global parent entity that is an investment entity is not permitted to consolidate certain subsidiaries. Such subsidiaries would therefore not be significant global entities. However, the GPE may still be a significant global entity if its annual global income is A\$1 billion or more (including revaluation gains arising from measuring investments at fair value under AASB 10, which may reflect the impact of the underlying performance of the subsidiaries through the fair value measurement process).

A.6 When do the new requirements apply?

Section 3CA(2) of the *Tax Administration Act 1953* contains the following requirements:

"A corporate tax entity to which this section applies for an income year must, on or before the day by which the entity is required to lodge its income tax return for the income year with the Commissioner, give to the Commissioner in the approved form a general purpose financial statement for the financial year most closely corresponding to the income year."

This section links the lodgment of general purpose financial statements with the lodgment of the entity's tax return for the relevant period.

For companies that have a June year end for accounting and tax purposes, the requirements will apply for the year ended 30 June 2017. As the due date for lodgment of the tax return is the fifteenth day of the seventh month after the close of the accounting period (unless otherwise extended), this means that the latest day for lodgment of general purpose financial statements for these entities in the absence of the ATO's transitional administrative provisions would be 15 January 2018³. However, the ATO's transitional administrative provisions provide that entities with an income tax year that ended on 30 June 2017 will have until 31 March 2018 to lodge their general purpose financial statements (see section A.9).

Where the entity has a substituted accounting period for tax purposes, equivalent timelines will apply. In these cases, the deadline for lodgment of tax returns may still be imminent (in respect of late balancing companies with a July or August accounting period for tax in some circumstances).



Thinking it through – Use of the term 'financial year' in section 3CA

Sections 3CA(2) and (2) of the *Tax Administration Act* refer to the term "financial year", which is further defined later in the section by cross-reference to the *Income Tax Assessment Act 1997*. That Act defines financial year as "a period of 12 months beginning on 1 July". In other words, on a technical reading of the requirements of the section, entities with substituted accounting periods for tax purposes might be seen as needing to lodge GPFS for a financial year ending on the 30 June most closely corresponding to their adopted income year.

However, the ATO's guidance puts forward the ATO's view that "if you are subject to Chapter 2M of the Corporations Act 'financial year' in section 3CA means the financial year as defined in section 323D of that Act". In other words, the ATO believes that because the wording in section 3CA is referencing the requirement to lodge financial reports under the *Corporations Act 2001*, the meaning of 'financial year' should also be read as referencing the *Corporations Act 2001* rather than the *Income Tax Assessment Act 1997*. However, for other corporate tax entities, the ATO guidance says the annual accounting period is the financial year for the purposes of section 3CA (i.e. the tax act definition).

A.7 Legislative definition of 'general purpose financial statement'

Section 3CA(5) of the *Tax Administration Act 1953* provides the following:

For the purposes of this section, a general purpose financial statement in relation to an entity:

- (a) *must be prepared in accordance with:*
 - (i) *the accounting principles, or*
 - (ii) *if the accounting principles do not apply in relation to the entity – commercially accepted principles relating to accounting; and*
- (b) *if the entity is a member of a group of entities that are consolidated for accounting purposes as a single group – must relate to:*
 - (i) *the entity; or*
 - (ii) *the entity and some or all of the other members of the group.*

When the legislation was enacted, a number of matters arose in relation to the application of the above requirements, including:

- Where an entity is a member of a group, for which entity can a GPFS be lodged?
- What 'commercially accepted principles relating to accounting' are acceptable and in what circumstances?
- How are the requirements applied in relation to complex group structures such as multiple-entry consolidated (MEC) groups and permanent establishments conducted through branches?

³ June balancing companies that are not full self-assessment (NFSA) taxpayers are required to lodge their tax returns by the first day of the six month following the income year, being 1 December 2017. There are various other lodgment dates that apply in various circumstances, e.g. where the entity is a new registrant, leaves a tax-consolidated group, were non-taxable or received a credit assessment in the latest year lodged, and are actually non-taxable or receiving a credit assessment in the current year, and various other circumstances. More information is available at www.ato.gov.au. Each entity should ensure they understand their relevant lodgment date and for NFSA taxpayers whether and how they fall into these measures.

A.8 What does the ATO guidance say about general purpose financial statements?

A.8.1 Overview

In essence, the ATO consultation focuses on how the references to 'entity' are to be understood when complying with section 3CA of the *Tax Administration Act 1953*. In other words, the obligation to prepare general purpose financial statements is placed on the taxpayer, but for which entity can the general purpose financial statements be prepared, and on what basis?

The ATO's guidance notes the following (emphasis added):

"The entity referred to in subsection 3CA(5) (particularly paragraphs 5(a)(ii) and (5)(b)) is the corporate tax entity that satisfies subsection 3CA(1). It therefore does not follow that subsection 3CA(5) can be read in such a way that you could have regard to the entity for which the financial report is being prepared to determine whether your GPFS needs to be prepared in accordance with Australian Accounting Standards or [commercially accepted accounting principles]"

In other words, general purpose financial statements need to be prepared in accordance with Australian Accounting Standards, if those standards generally apply in relation to the affected taxpayer in their own right. Australian Accounting Standards generally apply in relation to all entities with an obligation to prepare financial reports under Part 2M.3 of the *Corporations Act 2001*. This would mean that if an entity that is captured by Part 2M.3 of the *Corporations Act 2001* intended to satisfy its section 3CA obligations by lodging a global parent's report, that report would have to be prepared in accordance with Australian Accounting Standards (subject to the transitional provisions in the first period in which the entity complies with section 3CA). Converting the financial statements of a foreign parent to be compliant with Australian Accounting Standards is not necessarily a straightforward process (see section B.4.5).

Furthermore, the ATO guidance puts forward the view that Australian Accounting Standards will apply in circumstances where ASIC has otherwise relieved the entity, through a Corporations Instrument or Class Order, from preparing financial reports under Part 2M.3 of the *Corporations Act 2001*. In these cases, any general purpose financial statements lodged must comply with Australian Accounting Standards even though there may be no formal preparation and/or lodgment requirement under the *Corporations Act 2001* due to the ASIC relief to which the entity has availed itself.



Thinking it through – Status of the ATO guidance

The ATO is seeking additional consultation on its guidance in the period to 27 October 2017. As such, the guidance cannot be considered to be 'final' and may be subject to some change. However, the ATO has stated that due to the extensive consultation already undertaken, they "expect many of the issues raised during consultation are finalised". This may indicate key issues such as the meaning of 'entity' in section 3CA will not be revisited. Instead, the ATO is considering the broader issues that may arise (within the context of a guidance note that cannot be comprehensive) and in particular how parent accounts prepared in accordance with home country accounting standards could meet Australian Accounting Standards.

A.8.2 ATO's summary of entities affected

The ATO's guidance outlines the following broad categories of entities that may be impacted by the general purpose financial statements (GPFS) requirements:

| SGE corporate tax entity | Obligations under section 3CA |
|---|---|
| 1. You lodge a GPFS with ASIC within the stipulated time. | None. You can notify the ATO if you lodge a GPFS with ASIC after the time provided in subsection 319(3) of the Corporations Act, but before the due date for lodgment of your income tax return. In such instances, the ATO will consider that you have satisfied your obligation to provide a GPFS. |
| 2. You: <ul style="list-style-type: none">• Are required to lodge a GPFS with ASIC, but do not• Lodge special purpose financial statements (SPFS) with ASIC• Are required to prepare, but not lodge financial reports with ASIC (for example, grandfathered large proprietary companies), or• Are otherwise relieved from preparing financial reports by ASIC because your parent lodges consolidated financial statements prepared in accordance with Australian Accounting Standards incorporating your financial position and performance with ASIC.) | You must give the ATO a GPFS prepared in accordance with Australian Accounting Standards. The transitional administrative approach will apply in the first year of compliance if you are experiencing difficulties in preparing a GPFS in accordance with Australian Accounting Standards (see section A.9). |
| 3. You are an Australian resident for tax purposes, and you are: <ul style="list-style-type: none">• Not subject to the Corporations Act (for example, corporate limited partnerships)• Not subject to Part 2M.3 of that Act (for example, certain small proprietary companies), or• Otherwise relieved from preparing financial reports by ASIC because your foreign parent lodges consolidated financial statements with ASIC, which are prepared in accordance with accounting standards applicable in your parent's home country. | You must give the ATO a GPFS (stand-alone or consolidated) prepared in accordance with Australian Accounting Standards or other commercially accepted accounting principles (CAAP). |
| 4. You are a foreign resident operating a permanent establishment (PE), and did not lodge a GPFS with ASIC ⁴ (for example, registered foreign companies). | In most circumstances you are required to give the ATO a GPFS prepared in accordance with Australian Accounting Standards or CAAP. |

⁴ This may be the case where an entity is a foreign entity which is not required to be registered under the Corporations Act 2001 (e.g. certain foreign trusts operating a permanent establishment in Australia).

A.9 How will the transitional administrative approach impact the first year of compliance?

The ATO has advised that it will adopt a transitional administrative approach for the first year that entities must comply with section 3CA.

A.9.1 Relief from preparation in accordance with Australian Accounting Standards in some circumstances

This transitional administrative approach only applies if:

- The affected entity falls within scenario 2 in the table above (see section A.8.2), and
- The entity chooses not to give stand-alone general purpose financial statements or general purpose financial statements consolidating just the Australian members of the accounting consolidated group⁵, but instead intends to lodge general purpose financial statements related to the entity prepared under other commercially accepted principles relating to accounting.

In these cases, the ATO will not review whether general purpose financial statements lodged by the entity are prepared in accordance with Australian Accounting Standards, but those general purpose financial statements must be prepared consistently with another country's commercially accepted accounting principles.

The effect of this transitional administrative approach is that an affected entity that would otherwise be required to lodge the general purpose financial statements in accordance with Australian Accounting Standards can instead lodge the general purpose financial statements of a parent prepared in accordance with the accounting standards applying to the parent itself. In other words, the foreign parent's general purpose financial statements can be lodged without amendment for differences between the accounting principles applying to the parent and those applying under Australian Accounting Standards for the transitional period.



Thinking it through – Developing a plan for preparing and lodging general purpose financial statements

Because the deadline for first-time lodgment of general purpose financial statements is quickly approaching, it is imperative that affected entities prepare a plan for compliance, including understanding the impacts of the ATO's guidance and transitional provisions. The preparation of general purpose financial statements can be time and resource consuming, and may involve the collection and analysis of information that has not previously been available. Accordingly, entities should ensure they allow sufficient time to consider the nature of the general purpose financial statements to be prepared (or lodged), and document how the chosen general purpose financial statements ensure compliance.

A.9.2 Extension of time period to comply with section 3CA

This transitional administrative approach permits a lodgment concession if an entity's income tax year ended on 30 June 2017. In these cases, the entity has until 31 March 2018 to lodge general purpose financial statements with the ATO.

Entities with an income tax year ended on 30 June 2017 would otherwise be required to lodge general purpose financial statements with the ATO from 15 January 2018 (see section A.6).

⁵ Note however that the ATO's guidance requires consolidation to be in accordance with relevant accounting standards, so including all subsidiaries of the entity required to be consolidated under AASB 10 (see section A.10.2). Therefore, the consolidated information would include any relevant offshore subsidiaries and branches.

A.10 What are the impacts of the ATO guidance?

A.10.1 A strict reading of the law

In summary, the ATO's guidance takes the following approach as to how to determine the nature and form of the general purpose financial statement for the purposes of the GPFS requirements:

- The relevant entity is the 'significant global entity' caught by the GPFS requirements, i.e. the Australian entity that is either an Australian company or a foreign resident who operates an Australian permanent establishment
- The relevant entity must consider the relevant accounting principles that apply to it as an entity, and where those principles would apply because of the *Corporations Act 2001*, this will require the application of Australian Accounting Standards.

In practical terms, the ATO's guidance provides a very strict reading of the requirements in section 3CA(5), by linking 'significant global entity' to the corporate tax entity which is subject to Australian tax. Accordingly, the majority of entities are likely to be required to prepare GPFS in accordance with Australian Accounting Standards (whether for the entity itself or a parent, see section A.10.2), subject to the transitional administrative approach introduced for the first year of compliance.

A.10.2 Options re general purpose financial statements to be lodged

The ATO's guidance acknowledges that there are a number of ways to satisfy the requirements of section 3CA when preparing and lodging general purpose financial statements.

Depending upon the nature of the entity, the following general purpose financial statements may be able to be lodged:

- **General purpose financial statements of the affected taxpayer⁶**, consolidated for accounting purposes as a single group (i.e. consolidated in accordance with relevant accounting standards including all subsidiaries of the entity required to be consolidated under AASB 10, including any relevant offshore subsidiaries and branches)
- **General purpose financial statements of the affected taxpayer, prepared for the entity alone** (the guidance refers to these as 'stand-alone GPFS'), subject to any relevant accounting standard requirements (see Appendix A)
- **General purpose financial statements of a parent of the affected taxpayer**, which includes the financial position and financial performance of the affected taxpayer, i.e. consolidates the affected taxpayer. There is no specific guidance in the ATO's guidance on whether this can be for an intermediate parent, although the ATO's examples (see below) illustrate Australian subsidiaries of Australian intermediate parents lodging the consolidated financial statements of either an ultimate Australian parent or ultimate foreign parent (not mentioning intermediate parents).

The critical point is that if the affected taxpayer is subject to Part 2M.3 of the *Corporations Act 2001*, any general purpose financial statements prepared (no matter for which entity they are being prepared) must be prepared in accordance with Australian Accounting Standards (subject to the transitional administrative approach for the first period of compliance). Other affected taxpayers have some choice in which accounting principles are applied (and there are transitional provisions in the first year of compliance, as noted in section A.9).

To assist entities in determining which options are available, the ATO's guidance includes a number of worked examples providing further guidance on how the guidance is applied in practice.

The table below summarises these examples:

| Example | Summary of options noted by the ATO |
|--|--|
| Example 1 – A non-reporting entity preparing and lodging special purpose financial statements with ASIC | <ul style="list-style-type: none">• A GPFS for the entity prepared in accordance with Australian Accounting Standards |
| Example 2 – An ultimate Australian parent within a larger global group which is not exempt from consolidation under AASB 10 | <ul style="list-style-type: none">• Consolidated GPFS for the affected taxpayer• GPFS of a foreign parent prepared in accordance with Australian Accounting Standards (subject to the transitional provisions for the first compliance period noted in section A.9.1)• Affected taxpayer subsidiaries of the ultimate Australian parent can lodge consolidated GPFS of that Australian parent or of an ultimate foreign parent |

⁶ However, note the ATO's views on preparing general purpose financial statements for permanent establishments discussed on page 12.

| Example | Summary of options noted by the ATO |
|--|---|
| Example 3 – An Australian parent that avails itself of the exemptions from consolidation under AASB 10 | <ul style="list-style-type: none"> • Stand-alone GPFS of the Australian parent |
| Example 4 – Wholly-owned companies relieved from lodging a financial report under <i>ASIC Corporations (Wholly-owned Companies) Instrument 2016/785</i> | <ul style="list-style-type: none"> • For Australian entities, consolidated GPFS of Australian parent (in accordance with Australian Accounting Standards) • For foreign holding companies, consolidated GPFS of a foreign parent (in accordance with commercially accepted accounting principles) |
| Example 5 – Entering an accounting and tax consolidated group (and being a taxpayer for part of the income year) | <ul style="list-style-type: none"> • Stand-alone or consolidated GPFS of the ultimate Australian holding company (captured subsidiaries would need to prepare GPFS where stand-alone GPFS are prepared) • GPFS of a foreign parent prepared in accordance with Australian Accounting Standards (subject to the transitional provisions for the first compliance period noted in section A.9.1) • Members of the tax-consolidated group for the whole year are not required to comply with section 3CA (see also section A.4) • Taxpayer members of the tax consolidated group can provide their own GPFS, or the consolidated GPFS of the Australian parent or the foreign parent prepared in accordance with Australian Accounting Standards (subject to the transitional provisions for the first compliance period noted in section A.9.1) |
| Example 6 – Exiting an accounting and tax-consolidated group (so a stand-alone entity at the end of the income year, and not meeting the 'significant global entity' criteria at that time) | <ul style="list-style-type: none"> • No requirement of the leaving entity to lodge GPFS as it is not a significant global entity at the end of the period (not relevant that it was a member of a tax-consolidated group that is a significant global entity for part of, but not at the end of, the income year) • The remaining taxpayer members of the tax-consolidated group which the entity previously belonged to can lodge GPFS on a stand-alone or consolidated basis, or in respect of a foreign parent if prepared in accordance with Australian Accounting Standards (subject to the transitional provisions for the first compliance period noted in section A.9.1) |



Accessing the examples

The examples noted above are available in the ATO's guidance on the provision of general purpose financial statements by significant global entities which is available at www.ato.gov.au. The examples are spread throughout the guidance and in an Appendix.

A.10.3 Understanding options for compliance

The following table summarises the various types of corporate tax entities which may be captured by the GPFS requirements, and outlines the various options they have to prepare GPFS on applying the ATO's guidance, in the absence of the transitional administrative provisions:

| Type of corporate tax entity | GPFS prepared using Australian Accounting Standards | | GPFS prepared using other GAAP ⁷ | |
|--|---|-----------------------|---|-----------------------|
| | Taxpayer | Parent | Taxpayer ⁸ | Parent |
| Companies required to prepare financial statements under <i>Corporations Act 2001</i> ⁹ : | | | | |
| - Not controlled by a parent | Yes | n/a | No | n/a |
| - Controlled by an Australian parent | Yes | Yes | No | No |
| - Controlled by a foreign parent | Yes | Yes | No | No |
| Large proprietary companies that are 'grandfathered' under former s.319(4) of the Corporations Law and so are not required to lodge financial reports with ASIC | Yes | Yes | No | No |
| Large proprietary companies that are 'grandfathered' under <i>ASIC Corporations (Exempt Proprietary Companies) Instrument 2015/840</i> and so are not required to lodge financial reports with ASIC | Yes | Yes | No | No |
| Wholly-owned subsidiary of an Australian entity which is relieved from the requirement to prepare financial reports by <i>ASIC Corporations (Wholly owned Companies) Instrument 2016/785</i> | Yes | Yes | No | No |
| Small foreign controlled proprietary companies which are relieved from the requirement to prepare financial reports by <i>ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204</i> | Yes | Yes | No | No |
| Registered foreign companies operating a permanent establishment in Australia | No ¹⁰ | Depends ¹⁰ | No ¹⁰ | Depends ¹⁰ |
| Public trading trusts or corporate limited partnerships: | | | | |
| - Not controlled by a parent | Yes | n/a | n/a | n/a |
| - Controlled by an Australian parent | Yes | Yes | Yes | Yes |
| - Controlled by a foreign parent | Yes | Yes | Yes | Yes |

⁷ The reference to other GAAP is intended to apply where the parent (either the ultimate parent or an intermediate parent where permitted) is subject to reporting requirements other than Australian Accounting Standards in the preparation of their general purpose financial statements, e.g. International Financial Reporting Standards (IFRS), IFRS-compliant standards, or United States Generally Accepted Accounting Principles (US-GAAP). Other 'GAAPs' may also be acceptable for these purposes if they are considered 'commercially accepted accounting principles related to accounting' for the purposes of the legislation.

⁸ Care should be exercised where there is a "Yes" in this column and the taxpayer is an Australian entity which might otherwise be caught by Chapter 2M.3 of the *Corporations Act 2001* but for exemptions within the Act itself, or through the operation of an ASIC Corporations Instrument. In the latter case, the ATO has indicated that general purpose financial statements must be prepared in accordance with Australian Accounting Standards. In other cases, whilst theoretically using other GAAPs may be possible, it may seem unusual for Australian entities to adopt other than Australian Accounting Standards in preparing general purpose financial statements. In these cases, the adoption of any alternative GAAP would need to meet the requirement that the basis is considered 'commercially accepted accounting principles related to accounting' for the purposes of the legislation.

⁹ This requirement refers to the preparation and lodgment of financial reports under Part 2M.3 of the *Corporations Act 2001*. The *Corporations Act 2001* also contains other lodgment requirements, e.g. registered foreign companies are required to lodge certain information under s.601CK of the Act, and additional requirements apply in other situations including specific classes of entities and in relation to particular activities (such as raising funds from investors). Because the wording in s. 3CA of the *Tax Administration Act 1956* refers to the lodgment requirements in s.319 of the *Corporations Act 2001*, it is assumed that the focus is on financial reports under Part 2M.3 of the *Corporations Act 2001* as s.319 is included in that Part. Accordingly, references to the preparation of financial statements under the *Corporations Act 2001* in this publication is intended to refer to those prepared under Part 2M.3 only.

¹⁰ See 'Thinking it through – Permanent establishments' on page 12.



Thinking it through – Differences arising from the nature of the entity

The above table illustrates that any entity that is required to prepare financial reports under the *Corporations Act 2001* will not be able to lodge a general purpose financial statement of any foreign parent using the basis of accounting applicable to that parent's financial statements (subject to the transitional administrative provisions in the first year of compliance). This is because the ATO's guidance considers the Australian taxpayer to be the entity that triggers the section 3CA requirements and accordingly, the basis of accounting applicable to that entity under the *Corporations Act 2001* is relevant in determining what requirements apply, regardless of whether the general purpose financial statement is prepared for the entity or its parent. It follows that Australian taxpayers that are not required to lodge financial reports under the *Corporations Act 2001* (excluding consideration of any ASIC relief) are not subject to these restrictions and accordingly, have more flexibility in determining the basis of accounting under which the general purpose financial statement can be prepared.



Thinking it through – Permanent establishments

The ATO's guidance notes that the general purpose financial statements of a foreign resident conducting a business through a permanent establishment cannot be stand-alone general purpose financial statements for the permanent establishment itself. Instead, the general purpose financial statements of the foreign resident (incorporating the permanent establishment) must be prepared in accordance with commercially accepted accounting principles unless the entity is required to prepare financial statements under sections 601CK(5)-(6) of the *Corporations Act 2001*, in which case Australian Accounting Standards must be used. Furthermore, the ATO encourages separate measurement and disclosure of the Australian permanent establishment in general purpose financial statements, but also notes if those general purpose financial statements are denominated in a currency other than Australian dollars, they do not need to be re-denominated into Australian dollars.

The ATO's interpretation of how permanent establishments comply with section 3CA is controversial, in that a financial report for the permanent establishment itself cannot be prepared and lodged. The suggestion of including information about the permanent establishment in the notes to the general purpose financial statements prepared for the entity operating the permanent establishment further complicates compliance. Furthermore, the ATO's guidance can be read as requiring general purpose financial statements of the entity operating the permanent establishment, rather than permitting the option of lodging consolidated financial statements of a parent of that entity, although this is not clear given the wording used in section 3CA and other information in the ATO's guidance. We understand this matter will be referred to the ATO for clarification.

Impacted entities will need to ensure they understand when they are captured by the requirements and how they can ensure compliance in light of the ATO's guidance.

Part B Preparing 'general purpose financial statements' under Australian Accounting Standards



Thinking it through – Use of other GAAPs

The information in this section applies only where the entity is preparing general purpose financial statements in accordance with Australian Accounting Standards. Where other GAAPs are permitted in the preparation of the financial statements (because they meet the requirement of the legislation of being 'commercially accepted principles relating to accounting'), this guidance will not apply and the requirements of the specific GAAP being applied should be considered instead.

The ATO guidance notes that International Financial Reporting Standards (IFRS) or accounting standards that are IFRS compliant (such as Australian Accounting Standards), and also US generally accepted accounting principles (GAAP) are globally recognised as commercially accepted principles relating to accounting. The guidance notes that other GAAPs can only be determined on a case-by-case basis and a key consideration is whether such GAAPs provide a true and fair view.

B.1 Definition of general purpose financial statements

General purpose financial statements are defined in AASB 101 *Presentation of Financial Statements* as "those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".



Thinking it through – The lack of an "s"

The terminology used in Australian Accounting Standards is 'general purpose financial statements' (in the plural), whereas section 3CA of the *Tax Administration Act 1953* refers to 'general purpose financial statement' (in the singular). Whilst there is a difference in wording between the two sources, it is clear that the intention is for the reference in section 3CA to be interpreted in its normal accounting sense.

B.2 Types of general purpose financial statements

B.2.1 Two 'Tiers' of general purpose financial statements

AASB 1053 *Application of Tiers of Australian Accounting Standards* sets out how different categories of entities preparing general purpose financial statements apply the two 'Tiers' of general purpose financial statements:

- **Tier 1: Australian Accounting Standards** – incorporates International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and includes requirements that are specific to Australian entities. Private sector for-profit entities applying Tier 1 Australian Accounting Standards make an unreserved statement of compliance with IFRS in the notes to the financial statements
- **Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements** – comprises of recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. In addition, all presentation requirements are applied, with the exception of the requirement in some circumstances to present a third statement of financial position. An entity applying Tier 2 may elect to comply with additional Tier 1 requirements. Tier 2 financial reports include a statement of compliance with 'Australian Accounting Standards – Reduced Disclosure Requirements' rather than IFRS.



Thinking it through – ATO guidance on tiers

The ATO's guidance indicates that entities may have options in how compliance with section 3CA is achieved. In doing so, the guidance explicitly mentions that an entity may be able to satisfy the measure by providing general purpose financial statements prepared using Tier 2 Reduced Disclosure Requirements. Accordingly, the ATO is **not** suggesting that only Tier 1 general purpose financial statements will be suitable for the purposes of section 3CA compliance.

However, the ATO's guidance also focuses on 'best practice' and notes that entities should take into account how responding to options available to the entity "would best contribute to transparency of your Australian tax affairs". This implies that the ATO is encouraging entities to focus on providing the most relevant and comprehensive information in preparing their general purpose financial statements, in order to comply with the 'spirit of the law'. In some cases, this may mean entities choose to prepare Tier 1 general purpose financial statements where there are not otherwise required, or alternatively, provide additional information in their Tier 2 general purpose financial statements, e.g. more detailed information on income taxes and related party transactions consistent with that provided in Tier 1 general purpose financial statements.

B.2.2 Determining which Tier to apply

AASB 1053 outlines the categories of entities that are required to apply each tier. For-profit private sector entities that have public accountability and Australian Government, State, Territory and Local governments are required to comply with Tier 1 requirements. Other entities can choose to comply with Tier 1 or Tier 2 reporting requirements.

In relation to for-profit private sector entities, the key determinant of which reporting tier is to be applied depends on the public accountability concept. The definition deems a for-profit private sector entity to have public accountability in the following circumstances.

| Definition inclusion | Examples |
|---|--|
| The entity's debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market* | Entities listed (debt or equity) on the Australian Securities Exchange (ASX), National Stock Exchange of Australia (NSX) or Bendigo Stock Exchange (BSX) or any global stock exchange Entities with American Depository Receipts (ADRs) on issue Entities listed on the Alternative Investment Market (AIM) of the London Stock Exchange |
| The entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses | Banks, credit unions, building societies, insurance companies, securities brokers/dealers, mutual funds and investment banks |

* A domestic or foreign stock exchange or an over-the-counter market, including local and regional markets

In addition to the definition, AASB 1053 specifies a number of entities that are deemed to have public accountability:

- Disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market
- Co-operatives that issue debentures
- Registered managed investment schemes
- Superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000
- Authorised deposit-taking institutions (ADIs).



Thinking it through – Which entity is preparing a 'general purpose financial statement'?

An entity with a foreign parent may wish to lodge a general purpose financial statement of its foreign parent in order to meet the GPFS requirements, e.g. the foreign parent's financial information is being prepared using Australian Accounting Standards and the ATO's guidance requires these standards to be applied. In this case, care needs to be taken in applying the guidance in AASB 1053 in determining which Tier can be applied. If the foreign parent meets the definition of 'public accountability', e.g. by being listed on a foreign stock exchange, it will meet the public accountability criteria and so be required to prepare Tier 1 general purpose financial statements.

B.2.3 Understanding reduced disclosure requirements under Tier 2

AASB 1057 *Application of Australian Accounting Standards* specifies the types of entities and financial statements to which the Accounting Standards apply. When necessary, each Accounting Standard sets out disclosure requirements from which Tier 2 entities are exempt by shading the exempted requirements and adding special 'RDR' paragraphs.

Whilst there are numerous exceptions, the table below broadly summarises the disclosure matters generally retained and those omitted from the Tier 2 (RDR) requirements.

| Disclosure items generally retained | Disclosure items generally omitted |
|---|--|
| <ul style="list-style-type: none"> • Format and layout of the primary financial statements • Descriptions of accounting policies and methods • Key amounts included in the financial statements, e.g. impairment and reversals, breakdown of revenue, discontinuing operations, fair value adjustments, gains and losses • Movement schedules, e.g. share-based payments, property, plant and equipment, intangible assets, goodwill, and investment property • Reconciliations of key transactions and balances, e.g. business combination breakdowns, income tax expense and deferred tax balances • Significant uncertainties and judgements • Information about the entity and its related parties (but not necessarily details of transactions and balances). | <ul style="list-style-type: none"> • Detailed narrative disclosure, e.g. nature and extent of risks arising from financial instruments under AASB 7, standards on issue but not yet effective • Detailed information on how amounts have been measured, e.g. share-based payments, fair values • Supplementary information about key transactions, balances and events, e.g. financial information about associates/joint ventures, alternate presentation of profit or loss information, impairment, defined benefit plan liabilities • Many additional Australian disclosures, e.g. audit fees, franking credits, reconciliation of net operating cash flow to profit or loss • Most disclosures required by Interpretations. |



Thinking it through – Tier 2 focused on disclosure relief rather than recognition and measurement

It is important to recognise that entities applying Tier 2 (RDR) in preparing general purpose financial statements are eligible to reduce the *disclosures* made in financial reports. It does not provide any relief from the *recognition* and *measurement* requirements of Australian Accounting Standards and accordingly, these need to be fully complied with in preparing general purpose financial statements. Due to ASIC guidance on the preparation of special purpose financial reports by entities required to prepare financial reports under the *Corporations Act 2001*, this same requirement to adopt all recognition and measurement requirements of Australian Accounting Standards also applies to companies and other entities that lodge financial statements under that Act. Therefore, if special purpose financial statements have been prepared for the purposes of lodgement under the *Corporations Act 2001*, the amounts included in those general purpose financial statements should not change, but to comply with Tier 2 will require increased disclosures and also be generally prepared on a consolidated basis.

B.3 Comparison of various differential reporting frameworks

B.3.1 Special purpose financial statements

In addition to general purpose financial statements, Australian Accounting Standards also contain the concept of 'special purpose financial statements' (SPFS) which can be prepared by an entity when they are not considered a 'reporting entity'. Many entities that are impacted by the GPFS requirements will previously have prepared special purpose financial statements, or have prepared no financial statements at all.



Thinking it through – A critical difference: consolidation

A key difference between special purpose and general purpose financial statements is that general purpose financial statements generally have to be prepared on a consolidated basis (see section B.4.4 below for further analysis of this point). Where special purpose financial statements are prepared because the entity is not a reporting entity, the requirements of AASB 10 *Consolidated Financial Statements* are not required to be applied, which means that an entity can prepare financial statements covering the individual entity concerned. Where an entity is a holding company within a broader group, this obviously can mean a substantial difference in the level of effort required to prepare general purpose financial reports, as all of the information for subsidiaries is also required to be prepared and presented in general purpose financial statements in respect of those subsidiaries. By comparison, in special purpose financial statements prepared without consolidation, this information would not be required as the investments in subsidiaries will be commonly measured on the cost basis.

B.3.2 Differences between financial reporting frameworks

The table below illustrates, at a very high level, some of the differences between the various reporting frameworks. Whilst not exhaustive or comprehensive, it does serve to illustrate some of the disclosure impacts of moving from special purpose financial statements to general purpose financial statements under either Tier 1 or Tier 2.

| Element | Level of compliance under various frameworks | | |
|---|--|---------------|---------------|
| | SPFS* | GPFS (Tier 2) | GPFS (Tier 1) |
| Primary financial statements | | | |
| - Statement of profit or loss and other comprehensive income (one or two statements) | Full [#] | Full | Full |
| - Statement of financial position | Full [#] | Full | Full |
| - Statement of changes in equity | Full [#] | Full | Full |
| - Statement of cash flows | Full [#] | Full | Full |
| Breakdowns of material and significant balances into component parts (by way of notes) | Some | Full | Full |
| General information about the entity | Full [#] | Full | Full |
| Significant accounting policies | Full [#] | Full | Full |
| Impact of new and revised Accounting Standards and Interpretations on issue but not yet adopted | Full [#] | None | Full |
| Critical accounting judgements and key sources of estimation uncertainty | Full [#] | Full | Full |
| Information about the revenue of the entity | None | Full | Full |
| Segment information | None | None | In some cases |

| Element | Level of compliance under various frameworks | | |
|---|--|---------------|---------------|
| | SPFS* | GPFS (Tier 2) | GPFS (Tier 1) |
| Information about income taxes | None | Limited | Full |
| Information about discontinued operations and assets held for sale | Limited | Limited | Full |
| Information about specified components of profit or loss for the year | Limited | Limited | Full |
| Information about impairment losses | Limited | Limited | Full |
| Information about fair value measurements | None | Limited | Full |
| Earnings per share | None | None | In some cases |
| Reconciliations of movements in non-current assets | None | Limited | Full |
| Information about investments in other entities | None | Limited | Full |
| Information about financial instruments (including risk management) | None | Limited | Full |
| Information about defined benefit plans | None | Limited | Full |
| Information about related party transactions | None | Limited | Full |
| Information about share based payments | None | Limited | Full |
| Acquisitions and disposals of businesses | Full# | Limited | Full |
| Further information about cash | Full# | Limited | Full |
| Contingent liabilities and contingent assets | None | Limited | Full |
| Remuneration of auditors | Full# | None | Full |

* Prepared for lodgment under Part 2M.3 of the *Corporations Act 2001*. Note that where necessary to provide a true and fair view of the financial report as a whole, additional information would be required to be disclosed even if it was not explicitly required by a particular Australian Accounting Standard. In addition, *AASB 101 Presentation of Financial Statements* (which is applicable in special purpose financial statements) has certain overriding requirements in relation to judgements, estimates and additional information that result in additional disclosures in some cases.

'Full' in this context refers to the disclosure requirements of those Australian Accounting Standards which are mandatorily applicable in special purpose financial reports under Australian Accounting Standards. In particular, entities preparing special purpose financial reports are required to comply with *AASB 101 Presentation of Financial Statements*, *AASB 107 Statement of Cash Flows*, *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*, *AASB 1048 Interpretation of Standards*, *AASB 1053 Application of Tiers of Australian Accounting Standards*, *AASB 1054 Australian Additional Disclosures* and *AASB 1057 Application of Australian Accounting Standards*. In some cases, the requirements applying to general purpose financial statements will be more extensive in these topic areas due to additional requirements in other Australian Accounting Standards which are not mandatory in special purpose financial statements.



Additional guidance – Australian financial reporting guide and model financial statements

More information about general purpose financial reports and the differential reporting framework that applies in Australia can be found in our *Australian financial reporting guide*. We also have an illustrative general purpose financial report that illustrates the differences between Tier 1 and Tier 2 disclosures. The guide and model financial statements are updated on a regular basis and are available at www.deloitte.com/au/models.

B.4 Practical considerations

B.4.1 Need for comparative information

For GPFS prepared in accordance with Australian Accounting Standards, AASB 101 *Presentation of Financial Statements* requires comparative information to be presented in respect of the preceding period for all amounts reported in the current period's financial statements. In addition, comparative information for narrative and descriptive information is also required if it is relevant to understanding the current period's financial statements.

This requirement applies regardless of whether Tier 1 or Tier 2 (Reduced Disclosure Requirements) is being applied. However, because the level of disclosure required under Tier 2 is lower, the amount of comparative information required will be correspondingly lower.

Accordingly, GPFS must contain comparative information in order to comply with Australian Accounting Standards. However, this does not apply for an entity's first financial year.



Thinking it through – Entities which may trigger section 3CA in different periods

Because the key determinant of whether an entity is captured by section 3CA is the determination of 'annual global income' (see section A.5), care needs to be taken where the 'annual global income' threshold may be met in different periods, i.e. the affected taxpayer may exceed the threshold in one period but not the next (e.g. due to the inclusion of one-off gains in 'annual global income' or the impacts of changes in exchange rates in translating foreign amounts to Australian dollars), or entities undertaking growth may expect to exceed the threshold in future periods.

Because of the requirements for comparative information in GPFS under AASB 101 discussed above, entities facing the possibility of needing to be in compliance should ensure the necessary systems are in place to capture comparative information in order to prepare their GPFS in any period where section 3CA compliance is required.

B.4.2 Requirement for audit

There is no explicit requirement arising under section 3CA for GPFS to be audited. However, the ATO's guidance states that if an entity is required to have its GPFS or GPFS equivalent audited under another law, the audited version should be given to the ATO.

In addition, the ATO's guidance contains a recommendation that entities ensure they develop and keep evidence to demonstrate that the GPFS have been prepared in accordance with Australian Accounting Standards or commercially accepted accounting principles (CAAP). Furthermore, the ATO considers it best practice where possible to have GPFS audited as a way of ensuring there is reliable evidence regarding its preparation.

B.4.3 Transitional requirements applying when moving to general purpose financial statements

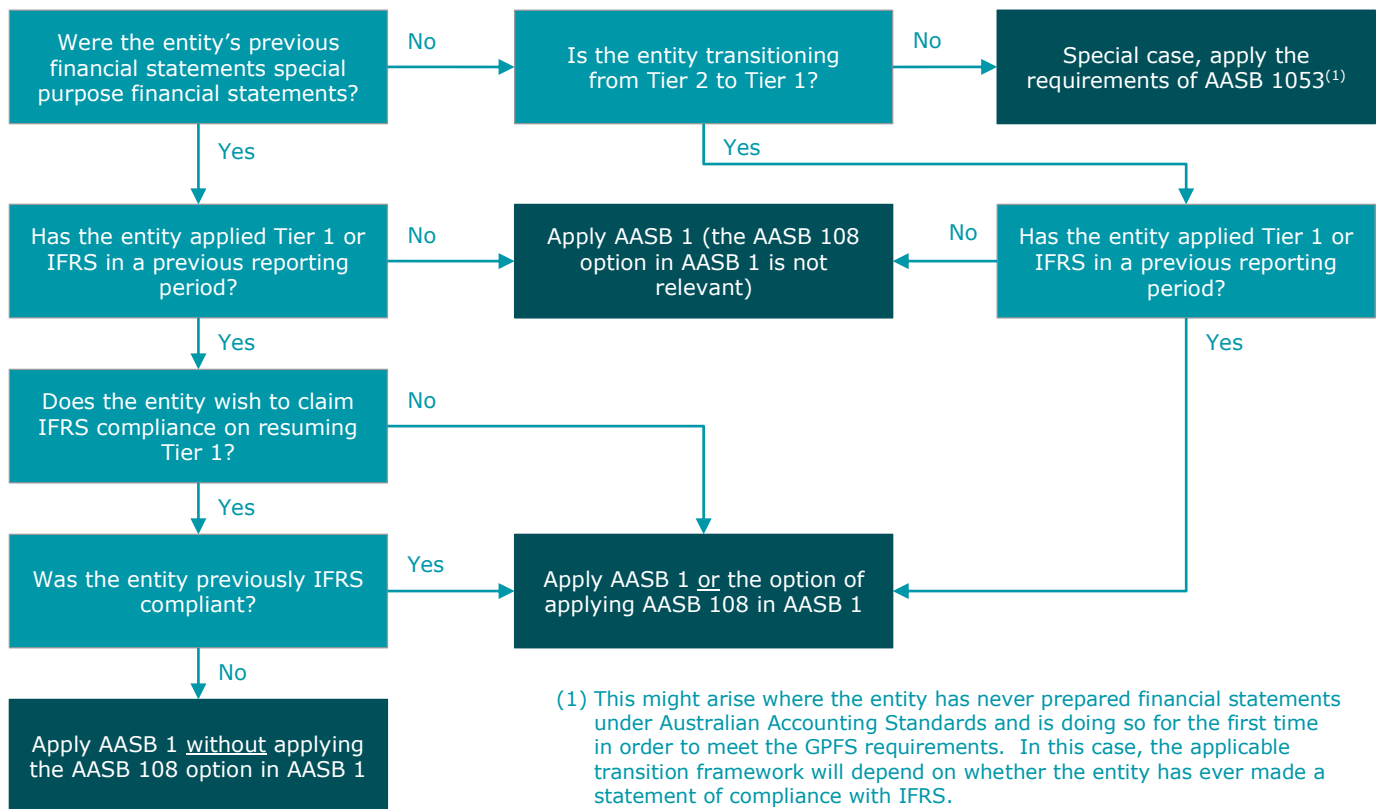
Australian Accounting Standards contain detailed requirements on transitioning between special purpose and general purpose financial statements, and between Tier 1 and Tier 2 (RDR) financial statements. These requirements are contained in AASB 1053 *Application of Tiers of Australian Accounting Standards*, AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Under these requirements:

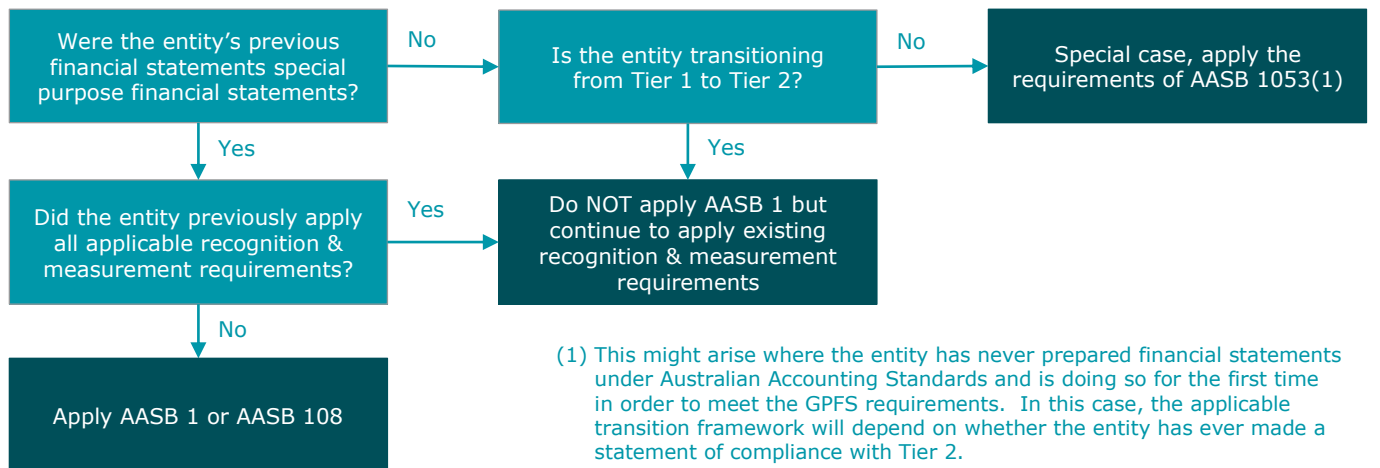
- The type and nature of transitional adjustments required depends on the type of financial report previously prepared, the Tier being adopted, and whether the entity has previously applied that Tier in prior periods (before the most recent period)
- If these requirements require or permit the entity to apply AASB 108 rather than AASB 1, full retrospective application of Australian Accounting Standards is required
- If these requirements require or permit the entity to apply AASB 1 rather than AASB 108, a modified retrospective application of Australian Accounting Standards is required.

The exact determination of the nature of the requirements to apply can be complex. The flowcharts on the next page provide a summary of the decision making process for the majority of cases for for-profit private sector entities.

Adopting Tier 1



Adopting Tier 2



Thinking it through – Understanding the differences between AASB 1 and AASB 108

The key difference between applying AASB 1 and AASB 108 is that AASB 1 contains a number of mandatory and optional exemptions from full retrospective application, including the use of estimates, business combination accounting, hedge accounting, classification and measurement of financial assets, embedded derivatives, and the use of fair value for deemed cost for the initial carrying amounts of certain assets. The implications for entities which are preparing GPFS will vary depending on the nature of the financial statements (if any) previously prepared. The practical differences for entities previously preparing special purpose financial reports under Australian Accounting Standards may be limited, whereas entities choosing to lodge the financial statements of a foreign parent may face a greater transition hurdle in meeting the requirements of either standard.

B.4.4 Entities which are not reporting entities but are still preparing general purpose financial statements



Further guidance

The information in this section is a specific application of what the ATO's guidance refers to as 'stand-alone GPFS'. More guidance on when 'stand-alone GPFS' can be prepared are outlined in [Appendix A](#).

Australian Accounting Standards contemplate that an entity may not be a reporting entity but nevertheless prepare general purpose financial statements. AASB 1057 *Application of Australian Accounting Standards* outlines which Australian Accounting Standards apply to entities and in which circumstances.

In particular, the majority of Australian Accounting Standards apply to *both* "general purpose financial statements of each... reporting entity" and "financial statements that are, or are held out to be, general purpose financial statements". Accordingly, it is conceivable that an entity that is not otherwise a reporting entity can still prepare general purpose financial statements, such as might be the case where an affected taxpayer considers itself not to be a reporting entity even though it is required to prepare general purpose financial statements under section 3CA.

AASB 1057 defines a "reporting entity" as:

"An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries."

Further guidance on determining whether an entity is a reporting entity is contained in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*.

The distinction between entities that are or are not reporting entities when preparing general purpose financial statements is that Australian Accounting Standards make a number of important distinctions which are relevant in complying with section 3CA.

In particular, AASB 10 *Consolidated Financial Statements* provides an exemption from the requirement to prepare consolidated financial statements where the following conditions are met:

- The entity is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all of its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
- The entity's debt or equity instruments are not traded on a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)
- The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market
- The entity's ultimate or any intermediate parent produces financial statements that are available for public use and comply with International Financial Reporting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with AASB 10.

AASB 10 further modifies these requirements in two respects:

- Permitting certain entities taking advantage of RDR (Tier 2) and certain not-for-profit entities from being able to avoid consolidation
- Requiring an ultimate Australian parent to present consolidated financial statements if either the parent or group is a reporting entity (or both are reporting entities) even if it would otherwise be able to avail itself of the exemption.

The second modification is important to entities which are not reporting entities but which are preparing general purpose financial statements, as if all of the requirements for the exemption are met and the entity is not a reporting entity, the general purpose financial statements may be prepared for the entity itself (i.e. separate financial statements) rather than consolidated financial statements.



Thinking it through – Not preparing consolidated financial statements

The concession noted above may be of primary benefit to Australian subsidiaries of foreign parents where that foreign parent prepares and lodges general purpose financial statements in accordance with International Financial Reporting Standards. It may also be beneficial where an Australian entity has foreign subsidiaries itself.

However, caution should be exercised in applying the exemption in AASB 10 in these circumstances. Firstly, the entity would need to be able to illustrate that it clearly is not a reporting entity, and this is a contentious area with significant political and other pressure being applied, e.g. the Australian Accounting Standards Board is exploring the nature of the reporting entity requirements and how they are being applied. Secondly, not presenting consolidated financial statements may result in unwanted scrutiny from media and others if it is not considered to be within the 'spirit of the law'. Thirdly, without consolidated financial statements of the ultimate Australian parent entity, any taxpayer subsidiaries of that entity would also be captured by the general purpose financial statements requirements and so be required to prepare and lodge general purpose financial statements, which may substantially increase the workload required to ensure compliance with section 3CA – this is because the subsidiary could otherwise lodge the consolidated general purpose financial statements of the ultimate Australian parent in meeting the requirements.

The ATO's guidance also explicitly notes the choice provided by paragraph 3CA(5)(b) to give the ATO either a stand-alone or sub-group consolidated general purpose financial statements. In addition, the guidance notes entities that are parents which are not exempt under AASB 10 can give stand-alone general purpose financial statements if the entity also complies with AASB 127 *Separate Financial Statements*, including any requirement to present consolidated financial statements.

B.4.5 Converting general purpose financial statements of a parent to Australian Accounting Standards

Overview

The ATO's guidance that an entity which has an obligation to lodge financial statements under the *Corporations Act 2001* (see section A.8) means general purpose financial statements for a foreign parent would need to be prepared in accordance with Australian Accounting Standards (subject to the transitional administrative approach in the initial year of compliance, see section A.9.1).

Private sector for-profit entities complying with Australian Accounting Standards are able to make an unreserved statement of compliance with International Financial Reporting Standards (IFRS). The differences between IFRS and Australian Accounting Standards are minor and do not undermine this ability to state compliance.

Accordingly, the ability of an entity to more easily convert the general purpose financial statements of a foreign parent to Australian Accounting Standards will most likely be applicable where the foreign parent's financial statements are prepared in accordance with IFRS, or make a statement of compliance with IFRS.

Where the foreign parent's financial statements are prepared using other commercially acceptable accounting principles (e.g. United States generally accepted accounting principles), the differences between those principles and Australian Accounting Standards may be significant and impose a substantial conversion burden in subsequent compliance periods (after the initial transitional approach adopted in the first compliance period).

Converting IFRS or IFRS-compliant financial statements to Australian Accounting Standards

As noted above, the easiest process of converting the general purpose financial statements of a foreign parent to Australian Accounting Standards will likely occur where a parent entity of an affected taxpayer prepares general purpose financial reports under IFRS, or makes an unreserved statement of compliance with IFRS.

In order to make a conversion from IFRS or IFRS-compliant financial statements to Australian Accounting Standards, consideration would need to be given to a number of factors including:

- Specific Australian requirements included in Australian Accounting Standards on specific topics, e.g. accounting for Petroleum Resource Rent Tax, tax-consolidation accounting, recognition and measurement of exploration and evaluation assets using an 'area of interest' approach under AASB 6 *Exploration for and Evaluation of Mineral Resources*
- Including any Australian specific disclosures, including under AASB 1054 *Additional Australian Disclosures* (may be less relevant if adopting RDR (Tier 2) disclosures, see section B.2.3 above)
- Any relevant terminology differences, e.g. referring to Australian Accounting Standards rather than their international counterparts
- Considering any subsequent events that may have occurred between the date of finalisation of the international financial statements and when the local general purpose financial statements are finalised (from both a disclosure and adjustment process)
- Updating when the general purpose financial statements were approved for issue (as required by AASB 110 *Events After The Reporting Period*).



Thinking it through – Converting parent entity financial statements

Although the option of converting a global parent's financial statements to be based on Australian Accounting Standards for lodgment with the ATO may be appealing in some cases, the amount and nature of the adjustments required to do so may limit its usefulness.

Because AASB 110 requires an entity to disclose the date when the financial statements were authorised for issue and who gave authorisation, this may impose constraints on who can and is willing to provide such authorisation: local directors or management may not be willing to authorise consolidated financial statements containing information that relates to the greater group (which is effectively outside their control), and global management may be unwilling to do so when they do not understand the legal obligations imposed at a subsidiary level.

Furthermore, the requirements to gather information for the entire group in respect of any additional disclosures, and the consideration of subsequent events until the date of authorisation may make this approach difficult to apply in the absence of close cooperation with the wider group in advance. However, this option may be attractive for certain groups.

The ATO is aware of these types of potential issues and is requesting feedback as part of its additional consultation on how parent accounts prepared in accordance with home country accounting standards could meet Australian Accounting Standards. The ATO provides examples of achieving this through commonality with the Australian Accounting Standards or through the provision of supplementary information to address additional items required by the Australian Accounting Standards. Accordingly, accepted practice and guidance in this area may develop over time.

B.4.6 Considering whether to lodge general purpose financial statements under the *Corporations Act 2001*

A corporate tax entity that is otherwise captured by section 3CA of the *Tax Administration Act 1953* is only required to lodge a general purpose financial statement with the ATO if it has *not* lodged a general purpose financial statement with ASIC. Accordingly, some entities may choose to prepare and lodge general purpose financial statements under Part 2M.3 of the *Corporations Act 2001*, rather than preparing special purpose financial statements for ASIC purposes and then preparing general purpose financial statements to lodge with the ATO.

However, adopting this approach may not be the most suitable approach in all cases. Set out below is a summary of some considerations to take into account:

- Adopting this approach may not be attractive in the first year whilst the transitional administrative approach is available (so the parent's unadjusted general purpose financial statements can be lodged in full compliance, see section A.9.1)
- Adopting this approach requires the preparation of one set of financial statements to effectively meet both requirements
- Adopting this approach also eliminates, with some exceptions, the need to address remaining interpretational issues associated with section 3CA
- The approach is only a consideration where the entity has a financial reporting obligation under Part 2M.3 of the *Corporations Act 2001*, and accordingly cannot be used where the entity is not required to prepare financial reports under those requirements (e.g. corporate partnerships, branches), or where relief from reporting requirements have been obtained
- General purpose financial statements generally contain more information than special purpose financial statements and accordingly may take longer to prepare, potentially requiring system changes and greater information gathering. This may be particularly difficult in the first year of compliance when the ATO guidance has not been issued and may be inconsistent with the views expressed in the consultation process
- The preparation of general purpose financial statements may require the presentation of consolidated information for the affected entity, which may effectively make public commercial and other information that has not previously been available in respect of the Australian entity compared to the lodgment of general purpose financial statements for a foreign parent (where this is available)
- The deadline for compliance with section 3CA is generally later than financial reporting under the *Corporations Act 2001*, and accordingly, the time available to gather information and prepare general purpose financial statements may be reduced compared to lodging two different sets of financial statements
- General purpose financial statements lodged with ASIC are generally required to be subject to audit, whereas there is not explicit requirement for financial statements lodged under section 3CA to be audited.



Thinking it through – Effect of lodgment of general purpose financial statements

It is important to recognise that the general purpose financial statements lodged to comply with section 3CA will be given to ASIC and will then become publically available (after the payment of a fee in some cases). Accordingly, where the entity is required to lodge general purpose financial statements, there is no practical difference between lodging directly with ASIC or via the ATO. Therefore, for Australian corporate tax entities that do not have the option of lodging the general purpose financial statements of a foreign parent entity, this consideration is not substantive, other than that the timeline for lodgment is usually later under the GPFS requirements. However, as noted in the consideration points above, entities with a foreign parent may choose to lodge consolidated general purpose financial statements of the parent instead of the local Australian corporate tax entity in some cases (and more widely in the first year of compliance due to the transitional administrative approach being adopted by the ATO). However, this ability will need to be tempered by the requirement to prepare the consolidated financial statements of the parent in accordance with Australian Accounting Standards (in subsequent compliance periods), which may require substantial effort in many cases as the information required may need to be sourced from more than the local Australian entities or Australian controlled entities.

Conclusion

Compliance with the general purpose financial statements requirements under section 3CA may require a significant implementation effort by entities, particularly where special purpose financial statements have been previously prepared, or no financial statements have been prepared at all.

Entities which may be affected by the GPFS requirements need to quickly understand the requirements, and develop a strategy to meet them within the required timeframes. Given the ATO guidance on the GPFS requirements has been issued late in the process and the deadlines for the first year when general purpose financial statements are required is approaching, this places additional importance on ensuring compliance can be achieved.



Important note

The information in this publication has been prepared on the basis of the ATO's near-final guidance which was issued on 28 September 2017, and is subject to an additional consultative process which ends on 27 October 2017. Depending upon the outcome of this further consultation process and any other developments, there may be further amendments made to the ATO's guidance which may need to be considered.

Appendix A – Determining when ‘stand-alone GPFS’ can be lodged under section 3CA

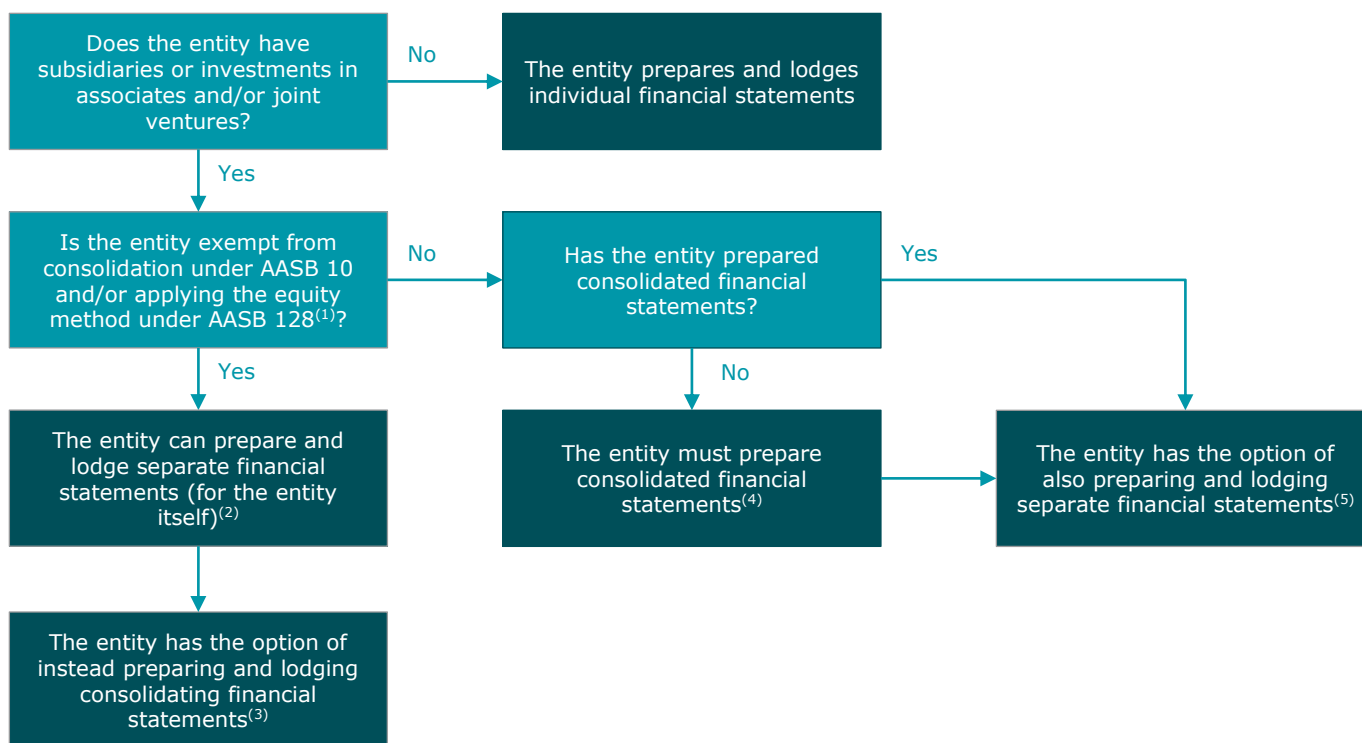
Background

AASB 127 *Separate Financial Statements* permits an entity to prepare separate financial statements in certain circumstances. Separate financial statements are those presented by an entity in which the entity could elect, subject to the requirements of the Standard, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement*), or using the equity method described in AASB 128 *Investments in Associates and Joint Ventures*. In other words, general purpose financial statements prepared as separate financial statements are not prepared on a consolidated basis.

Separate financial statements are those presented **in addition** to consolidated financial statements, or in addition to the financial statements of an investor without subsidiaries but with interests in associates or joint ventures. In some cases, separate financial statements may be presented as the only financial statements for an entity. An entity that does not have any subsidiaries or investments in associates and/or joint ventures does not prepare separate financial statements, but instead prepares individual financial statements for the entity itself.

Flowchart

The flowchart below explains when an entity can lodge separate financial statements for the affected taxpayer (referred to as the ‘entity’) in order to comply with section 3CA. Note that this flowchart does not apply to entities operating permanent establishments (see instead the discussion on page 15).



- (1) The requirements for the exemption are set out in paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 and paragraphs 17, Aus17.1 and Aus17.2 of AASB 128. In addition, investment entities applying the consolidation exemption to all its subsidiaries under paragraph 31 of AASB 10 are also exempt from consolidation. Further information is also available in section B.4.4 which deals with a specific case of this flowchart
- (2) These must be prepared as general purpose financial statements if being lodged under section 3CA. Where Tier 1 general purpose financial statements are prepared, additional disclosure is required under paragraph 16 of AASB 127 where the consolidation exemption has been used, including that the exemption has been used, the entity whose consolidated financial statements complying with IFRS have been produced for public use and the address where those consolidated financial statements are obtainable. Nevertheless, the parent’s consolidated financial statements need to be available. The ATO’s guidance also notes this requirement, but does not draw a distinction between Tier 1 and Tier 2 financial statements. Accordingly, including these disclosures in Tier 2 general purpose financial statements lodged under section 3CA may be considered best practice
- (3) However, investment entities applying the consolidation exemption to all its subsidiaries under paragraph 31 of AASB 10 are not permitted to prepare consolidated financial statements
- (4) These consolidated financial statements could conceivably be prepared as special purpose financial statements if the entity was not a reporting entity. If the consolidated financial statements are to be lodged under section 3CA, they must be prepared as general purpose financial statements
- (5) Entities electing to prepare and lodge separate financial statements in these circumstances should first consider the ‘best practice’ guidance outlined in the ATO’s guidance, specifically that the entity consider “how each option would best contribute to transparency of your Australian tax affairs”. In addition, Example 5 of the ATO’s guidance notes that consolidated financial statements “would typically be presented as additional columns alongside the separate financial statements prepared”. The consolidated financial statements must still be prepared and available if requested

Appendix B – Frequently asked questions

Background

This appendix sets out a number of commonly asked questions about the general purpose financial statement requirements and ensuring compliance with them. In addition to the responses below, you should read this document in its entirety, and the ATO guidance.

Determining which entities are impacted

Do all members of a tax-consolidated group or multiple entry consolidated (MEC) group need to lodge under section 3CA?

Generally, no. Only a taxpayer can be captured by section 3CA, and the ATO's guidance explicitly notes that members of tax-consolidated group are not considered taxpayers and so are not required to lodge (see section A.3). However, where entities join or leave tax-consolidated or MEC groups during an income year, the requirement may be triggered where the entity joining or leaving is a taxpayer for part of the income year (see section A.4).

How does an Australian entity that is jointly controlled by other entities determine whether it is captured by section 3CA?

The jointly controlled entity needs to assess whether it meets the criteria in its own right. In other words, it does not consider the 'annual global income' of its owners, but considers the amount of 'annual global income' it recognises in its own financial statements (on a consolidated basis if it has subsidiaries). The amount of income of its owners is not relevant as it is not controlled by another entity. In addition, each joint venturer would be required to undertake equity accounting of the joint venture when determining their own 'annual global income' and in relation to a joint operation, the entity would include in its 'annual global income' its share of the income of the joint arrangement. See also section A.5.

What is the relevant date to determine whether an entity is captured by the GPFS requirements?

In general, the relevant date is the end of the relevant income year. If the entity meets the requirements to be a significant global entity at that date, it will be subject to section 3CA (unless it has lodged general purpose financial statements with ASIC). Complications can arise where an entity joins or leaves a consolidated group during an income year (see section A.4 and the ATO examples discussed in section A.10.2).

Preparing GPFS

Can 'Tier 2' (Reduced Disclosure Requirements) be used to prepare GPFS lodged under section 3CA?

Yes, so long as the entity for which GPFS are being prepared meets the criteria to apply Tier 2 in preparing its financial statements (see section B.2.2). Particular care needs to be taken when GPFS of a parent are being lodged, because it is the parent's status that is used to determine which tier can be applied.

Do GPFS require comparative information?

Generally, yes. For GPFS prepared in accordance with Australian Accounting Standards, comparative information must be provided (see section B.4.1).

Can the GPFS for a permanent establishment be prepared for the PE itself?

No. The ATO's guidance says that the GPFS must be for the foreign resident conducting business through an Australian permanent establishment (PE) cannot be stand-alone GPFS for the Australian PE (see section A.10.3)

Do GPFS need to be audited?

It depends. The ATO guidance states that there is no explicit requirement for audit under section 3CA, but recommends an audit as best practice. In addition, if the GPFS are otherwise required to be audited under another law, the audited GPFS should be given to the ATO. See also section B.4.2.

Where the entity's accounting year end is not 30 June, can the GPFS be prepared for the accounting financial year?

It depends. Although there is some uncertainty in the way section 3CA is worded, the ATO's guidance states that 'financial year' for entities subject to Chapter 2M of the *Corporations Act 2001* should be read as meaning the financial year as defined in section 323D of that Act. Accordingly, entities subject to the *Corporations Act 2001* in these circumstances can prepare GPFS for their financial year for accounting purposes. Other corporate tax entities (i.e. those not subject to Chapter 2M) will need to refer to the definition of 'financial year' for the purposes of section 3CA. See also section A.6.

Are there any concessions available in the first year of compliance?

Yes. For the first year, some entities will be eligible to lodge the GPFS of a foreign parent prepared under the accounting requirements applying in the foreign entity's jurisdiction even though those GPFS would be required to be prepared using Australian Accounting Standards under the ATO's guidance. In addition, entities with income tax year ended on 30 June 2017 are given a first-year only extension to lodge their GPFS by 31 March 2018 (rather than mid-January 2018 that would otherwise apply). See also section A.9.

Where can I find more guidance on preparing GPFS?

In addition to Part B of this publication, further information about preparing general purpose financial statements can be found in our *Australian financial reporting guide* and *Model financial statements*, both available at www.deloitte.com/au/models.

Lodging GPFS

I have already lodged special purpose financial statements with ASIC. Can I lodge GPFS with ASIC and avoid having to lodge under section 3CA?

Potentially. The ATO's guidance includes administrative relief where an entity lodges GPFS with ASIC after the deadlines in section 319(3) of the *Corporations Act 2001*, but before the due date for lodgment of the entity's tax return. Accordingly, it may be possible to lodge GPFS with ASIC, but relevant corporations law requirements would need to be considered before doing so.

Do I have to lodge with both the ATO and ASIC?

Yes, where the entity is required to lodge financial reports under the *Corporations Act 2001* and is also required to lodge with the ATO under section 3CA (e.g. where the entity has lodged special purpose financial statements with ASIC). However, the GPFS required to be lodged with the ATO under section 3CA are only required to be lodged with ATO in accordance with the ATO's guidelines, and do not also have to be lodged with ASIC (see also 'Thinking it through' in section B.4.6).

Contacts



Alison White

Partner

Sydney

aliswhite@deloitte.com.au



Clive Mottershead

Partner

Melbourne

cmottershead@deloitte.com.au



Anna Crawford

Partner

Sydney

acrawford@deloitte.com.au



Tracey Rens

Partner, Tax

Sydney

trens@deloitte.com.au

Deloitte Touche Tohmatsu Limited
Grosvenor Place
225 George Street
Sydney NSW 2000

Australia

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