Clarity in financial reporting

Understanding the ‘general purpose financial statements’ requirements for significant global entities

Talking points

- The ‘GPFS requirements’ arising under the Tax Administration Act 1953 for the lodgment of a ‘general purpose financial statement’ (GPFS) by significant global entities applies to income years beginning on or after 1 July 2016.
- Affected entities that have not already lodged GPFS with the Australian Securities and Investments Commission (ASIC) in respect of each relevant income year are required to lodge GPFS with the Australian Tax Office (ATO) by the due date of an affected entity’s tax return, generally 6½ months after their balance date.
- In April 2019, the ATO released updated guidance on how entities should interpret and apply the GPFS requirements. This updated guidance addresses many outstanding interpretational issues and makes their application clearer in a broader range of circumstances.
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Introduction


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) (referred to in this publication as the ‘GPFS requirements’). These requirements are contained in section 3CA of the Tax Administration Act 1953. These provisions apply to income years beginning on or after 1 July 2016.

The interpretation of the GPFS requirements was uncertain when the legislation was enacted, with many matters initially identified for clarification. Resolution of this issues has seen the ATO release to date:

- A discussion paper in October 2016
- Draft guidance in January 2017
- Proposed guidance in September 2017
- A Public advice and guidance companion in December 2017
- Updated guidance in April 2019.

The lack of definitive guidance during the implementation process has left many entities facing uncertainties in interpretation and a lack of clear direction on how to comply, particularly given the significant penalties for non-compliance. Additionally, the ATO’s ‘transitional administrative approach’ was only available to entities in their first year of compliance and many entities are currently meeting or planning their compliance without these transitional provisions.

The updated ATO guidance provides the ATO’s views on how the GPFS requirements will be administered and are helpful in interpreting and applying those requirements.

Accessing the relevant documentation


The ATO’s guidance on the provision of general purpose financial statements is available at www.ato.gov.au.
Part A  Understanding the GPFS requirements

A.1  Roadmap

**Step 1 – Determine if the entity is a significant global entity (SGE) for tax purposes**

The GPFS requirements can only apply to significant global entities (SGEs) as defined under tax law. The key test in the legislation is the amount of consolidated income of the global parent entity (GPE) of the entity (or the entity itself), specifically whether that income is greater than A$1 billion. However, there are considerations of what items are included in the determination of income.

**Step 2 – Determine whether the SGE might be captured by the GPFS requirements**

The GPFS requirements only apply to 'corporate tax entities', including 'permanent establishments' operating in Australia, and only where those entities have not already lodged GPFS with the Australian Securities and Investments Commission (ASIC). Accordingly, an entity can be a SGE but still not have to meet the GPFS requirements.

**Step 3 – Where GPFS are required, understand the choices available**

The enabling legislation for the GPFS requirements contemplates various options for satisfying the lodgment requirements, in terms of both the entity for which GPFS are lodged, and the accounting standards used in those GPFS.

**Step 4 – Determine whether the GPFS requirements apply to the entity's financial year**

The requirements generally apply to an entity's income years beginning on or after 1 July 2016, and so are now in general application. However, there are a number of interpretational issues where entities are recently incorporated, change their financial years for financial reporting purposes, or join or leave tax-consolidated groups or multiple entry consolidated groups.

**Putting it all together**

The section deals with the deadlines for lodgment, an overview of possible outcomes for various types of entities, summarising when entities are required to prepare GPFS in accordance with the GPFS requirements, and the options for complying with those requirements.

The following pages provide more detail on each of the above steps.
A.2  Step 1 – Determine if the entity is a significant global entity (SGE) for tax purposes

A.2.1 Overview

Broadly, a significant global entity (SGE) is an entity or a member of a consolidated group that has consolidated annual income of A$1 billion or more. The flowchart below outlines the legislative determination process to determine if an entity is a SGE.

A.2.2 What is a ‘global parent entity’?

For the purposes of determining whether an entity may be a significant global entity (SGE), a ‘global parent entity’ (GPE) is an entity that is not controlled by another entity applying Australian Accounting Standards or, where those standards do not apply, commercially accepted principles relating to accounting (ITAA s.960-560).

In other words, a global parent entity is any entity that is not controlled by another entity using relevant accounting concepts.

This means:

- There is no requirement that the GPE be incorporated, registered or otherwise operating in Australia (even though the Australian taxpayer assessing whether it is a SGE may do so)
- A GPE can be an Australian entity if that entity is not controlled by another entity, i.e. the global parent entity does not need to be a foreign entity
- A GPE can be a single entity, i.e. there is no requirement for a consolidated group to exist for an entity to be a global parent entity
- An entity directly owned and controlled by an individual can be a GPE, i.e. it is the entity, not the individual, which is seen as the GPE.

A.2.3 What are ‘global financial statements’?

Global financial statements for the GPE must be prepared in accordance with Australian Accounting Standards (issued by the Australian Accounting Standards Board) and where audited, audited in accordance with 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) (ITAA 1997 s.960-565).

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 period. Where the information is not in Australian dollars, the ATO’s guidance prescribes that translations of amounts included in the global financial statements be performed using average exchange rates for the period.
What if global financial statements are not prepared?

The definition of ‘global financial statements’ technically assumes that such financial statements exist. The question then becomes what happens if a GPE does not prepare financial statements.

A technical reading of the definition leads to the conclusion that if there are no financial statements prepared, an entity cannot be a SGE because there are no financial statements from which to determine the annual global income (see below). This situation often arises in relation to privately held entities incorporated in some jurisdictions (e.g. the United States) that have entities operating in Australia.

The (previous) Federal Government acknowledged this issue in its 2018 Federal Budget. The Treasury Laws Amendments (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 was tabled in the 45th Federal Parliament. This Bill proposed to introduce the concept of a ‘notional listed company group’ that would have the effect of determining annual global income by reference to ‘notional’ financial statements where global financial statements are not prepared for a GPE. The amendments would have the effect where an entity does not have adequate global financial statements for a period, its annual global income for that period be determined, as the amount a reasonable person would conclude would be its annual global income were such global financial statements prepared. In addition, other amendments proposed to reduce the scope of the GPFS requirements to apply to ‘country-by-country reporting entities’, whereby some entities which are SGEs will not be required to comply with the GPFS requirements even though they will be subject to the other measures applying to SGEs.

The revised requirements were originally expected to commence with effect from 1 July 2018. However, the Bill has lapsed due to the dissolution of Federal Parliament on the calling of the Australian Federal election on 11 April 2019.

In the absence of legislative change, there remains some uncertainty as to when particular entities will be identified as SGEs.

A.2.4 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 the global financial statements (see A.2.3).

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).

The ATO’s guidance on significant global entities indicates that annual global income is the total 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. Net amounts (e.g. gains on sale of assets) are included based on how those amounts are determined under the relevant accounting principles.

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 SGE definition from period to period as transactions occur.

In addition, the ATO’s Law Companion Ruling 2015/3 (LCR 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).

Nothing in the definition of annual global income requires the entity to operate on a global basis. Accordingly, Australian based entities that only operate in Australia can still be a significant global entity if they meet or exceed the A$1 billion income threshold.

Thinking it through – Understanding the nature of ‘income’ under Australian Accounting Standards

‘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).

Additional guidance – Investment entities

In LCR 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).

However, the Treasury Laws Amendments (Making Sure Multinationals Pay Their Fair Share of Tax in Australian and Other Measures) Bill 2018 proposed to expand the scope of significant global entities to include groups headed by investment entities and other unlisted entities. This Bill would result in the consolidation exemption for investment entities in AASB 10 Consolidated Financial Statements (and equivalent commercially accepted accounting principles) being ignored for the purposes of determining the annual global income of a GPE. The revised requirements were originally expected to commence with effect from 1 July 2018. However, the Bill has lapsed due to the dissolution of Federal Parliament on the calling of the Australian Federal election on 11 April 2019.

A.2.5 Tax Commissioner can determine that an entity is a SGE

The Tax Commissioner can make a determination that an entity is a SGE if global financial statements have not been prepared and the Commissioner reasonably believes, on the basis of information available to the Commissioner, that such financial statements if prepared would have shown global annual income of A$1 billion or more (ITAA 1997 s.960-555(3)).

2 In March 2018, the International Accounting Standards Board issued a revised Conceptual Framework for Financial Reporting. The revised framework defines income as ‘Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims’. The revised framework has not yet been implemented in Australia and in any case, it only expected to apply (through changing references to it in Australian Accounting Standards, and then only for certain entities initially) for annual reporting periods beginning on or after 1 January 2020. The revised definition is not expected to have a broad impact on the nature of items classified as income for GPPS requirements.
A.3  Step 2 – Determine whether the SGE might be captured by the GPFS requirements

A.3.1 Overview

Having determined an entity is a SGE, the next step is to determine whether the SGE is subject to the GPFS requirements. The flowchart below outlines the decision process in making this determination.

A.3.2 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. Only these types of entities can be captured by the GPFS requirements. Accordingly, partnerships (other than corporate limited partnerships), trusts and non-corporate entities are generally not considered corporate tax entities and therefore cannot be subject to the GPFS requirements.
A.3.3 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 assess carefully 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 14.

A.3.4 Requirement to lodge a tax return

Because the GPFS requirements links the timeframe for compliance to the lodgment of the entity’s tax return, the ATO’s guidance takes the view that only SGEs required to lodge a tax return with the ATO for a particular income year can be subject to those requirements for that period.

Accordingly, an entity may be a SGE but will not be required to lodge GPFS with the ATO because the entity is not required to lodge a tax return.

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

The ATO’s guidance 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 the GPFS requirements. There are however, specific considerations in respect of entities joining or leaving such groups during an income year.

In effect, the only taxpayer that exists in these groups is the head entity in the tax-consolidated group or MEC group, and it is for this entity that the GPFS requirements can be triggered. The ATO’s guidance effectively takes the view that by GPFS requirements linking their 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.

**Thinking it through – Joining or leaving a tax-consolidated group or multiple entry consolidated (MEC) group**

The determination of whether an entity is captured by the GPFS requirements is made at the end of the entity’s income year, but is also impacted by whether the entity is an income tax payer (and so required to lodge a tax return) 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 affect whether or not the GPFS requirements 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 the GPFS requirements 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 groups or MEC 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 GPFS requirements.

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 the GPFS requirements if they meet the criteria in their own right at the end of the relevant period.

A.3.5 Lodgment of GPFS with ASIC under Part 2M.3 of the *Corporations Act 2001*

The GPFS requirements only apply if a SGE has not lodged GPFS with ASIC for the financial year most closely corresponding to the income year. Accordingly, if an entity is obliged to prepare and lodge financial reports with ASIC under the *Corporations Act 2001*, it may choose to lodge GPFS with ASIC and avoid the GPFS requirement to lodge GPFS with the ATO.

The types of entities generally required to prepare and lodge financial reports with ASIC under Part 2M.3 of the *Corporations Act 2001* include:

- Public companies
- Large proprietaries
- Small proprietary companies controlled by a foreign company
- Registered schemes
- Entities undertaking crowd-source funding
- Notified foreign passport funds.
The obligation to prepare and lodge financial reports can be relieved by a number of ASIC Corporations Instruments and Class Orders, including:

- ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204, which exempts certain foreign-owned small proprietary companies, provided certain conditions are met
- ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, which exempts certain wholly-owned subsidiaries, provided certain conditions are met.

In addition, certain ‘grandfathered exempt proprietary companies’ are not required to lodge financial reports with ASIC.

Thinking it through – Dual lodgment relief
Entities that are listed on eligible financial markets (such as the Australian Securities Exchange (ASX)) are able to take advantage of ASIC Corporations (Electronic Lodgment of Financial Reports) Instrument 2016/181. Under this relief, lodgment of financial reports (and other information) with the operator of the financial market is taken to be lodgment with ASIC.

The question then becomes whether or not entities taking advantage of the Corporations Instrument have not technically lodged a GPFS with ASIC are so required to lodge GPFS with the ATO under the GPFS requirements.

Updates to the ATO’s guidance in April 2019 clarify that an entity will be considered to have lodged GPFS with ASIC when an entity taking advantage of the Corporations Instrument has lodged GPFS with the operator of an eligible financial market.

Additional guidance – Australian financial reporting guide
More information about the financial reporting requirements of the Corporations Act 2001 and how they are impacted by ASIC instruments can be found in our Australian financial reporting guide. The guide is available at www.deloitte.com/au/models.

A.3.6 Permanent establishments operated by registered foreign companies

Only certain foreign companies are required to be registered as ‘registered foreign companies’ under the Corporations Act 2001 (specifically Part 5B.2 of the Act). This may be the case where a foreign entity operates a branch in Australia.

Only registered foreign companies can lodge financial reports under s.601CK of the Corporations Act 2001. In other words, ASIC cannot accept the lodgment of financial reports of foreign entities unless the entity is required to be registered as a registered foreign company.

The ATO guidance on the GPFS requirements takes the view that where a foreign registered company operates a permanent establishment and lodges GPFS under s.601CK (within the appropriate deadlines), there is no obligation to lodge GPFS with the ATO under the GPFS requirements.

A.3.7 Requirement to lodge with ASIC within given timeframes

The GPFS requirements do not apply to an entity where the where the entity has already lodged a GPFS with the Australian Securities and Investments Commission (ASIC) prepared under Part 2M.3 of the Corporations Act 2001.

The deadline in s.319(3) for lodgment of financial reports with ASIC prepared under Part 2M.3 of the Corporations Act 2001 is generally three or four months after the end of the entity's financial year, depending on the nature of the entity.

The ATO's guidance contains administrative relief for late lodgment with ASIC. Under this relief, the ATO will accept that a SGE has satisfied its GPFS obligations where the entity lodges GPFS with ASIC after the deadline in s.319(3) but before the due date for lodgment of the entity's income tax return for the relevant period. Where the relief is adopted, the SGE is required to notify the ATO of the late lodgment.

Updates to the guidance made in April 2019 explicitly provide that this relief applies to registered foreign companies lodging GPFS under s.601CK (see section A.4.5).

Accordingly, as long as an entity has lodged GPFS with ASIC before the due date of its income tax return for the relevant period (see section A.6.1), and also notified the ATO of any late lodgment (as noted in the ATO's guidance), there is no obligation to prepare and lodge GPFS with the ATO.

Where the entity has a substituted accounting period for tax purposes, equivalent timelines will apply based on the timeline for the lodgment of the entity's tax return.
A.4 Step 3 – Where GPFS are required, understand the choices available

A.4.1 Overview

The GPFS requirements effectively include a number of choices as to how to achieve compliance.

The flowchart below summarises the decision making process to determine which accounting standards should be applied in the preparation of GPFS to be lodged with the ATO, in light of the requirements of the law and the ATO's guidance. This section also deals with determining the entity for which GPFS are prepared, as the two concepts are linked.

A.4.2 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.

Because the legislation contemplates compliance being achieved in various ways, entities may, depending on their circumstances, have choices in:

- Which accounting standards are used in the preparation of GPFS lodged to meet the GPFS requirements, i.e. Australian Accounting Standards (by virtue of the definition of “accounting principles”) or ‘commercially accepted accounting principles’ (the term used in the ATO’s guidance, referred to as ‘CAAP’)
- Which entity prepares GPFS in meeting the GPFS requirements, i.e. the taxpayer itself (stand-alone financial statements), or consolidated financial statements that consolidate the entity (either consolidated GPFS for the entity itself, or a parent).

Because of the lack of clarity in the legislation dealing with these choices and their applicability, the ATO’s guidance was developed to provide the ATO’s views on how it will administer these matters.
A.4.3 Understanding the basis of the ATO’s guidance

In essence, the ATO guidance focuses on how the references to ‘entity’ are to be understood when complying with the GPFS requirements.

In summary, the guidance takes the following approach as to how to determine the nature and form of GPFS 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 corporate tax entity or a foreign resident corporate tax entity that operates an Australian permanent establishment (i.e. the affected taxpayer)
- 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, many 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.4.6).3

The discussion below set out how the ATO’s views are applied in practice.

A.4.4 Entities with a reporting obligation under Part 2M.3 the Corporations Act 2001

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 (see section A.3.5), due to requirements of s.2964. As a result, Australian Accounting Standards must be applied in preparing the GPFS lodged by the entity regardless of for which entity those GPFS are being prepared. For example, an entity with a reporting obligation under Part 2M.3 wishing to lodge a global parent’s GPFS, would have to prepare those GPFS in accordance with Australian Accounting Standards regardless of what accounting standards the global parent would otherwise apply.5 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).

However, the ATO guidance takes the view that Australian Accounting Standards will not automatically 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, the GPFS lodged will not have to comply with Australian Accounting Standards unless it is required to do so for other reasons.

Thinking it through – Wholly-owned entities

Entities within wholly-owned groups can, subject to meeting various conditions contained in ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, avoid the need to prepare and lodge financial reports under Part 2M.3 of the Corporations Act 2001. The holding entity in the group under the order can be an Australian entity or a registered foreign company. If that entity is also a tax payer that is subject to the GPFS requirements, the accounting standards to use in the GPFS lodged with the ATO depends on the status of the holding company:

- If the holding entity is an Australian entity – the GPFS must be prepared in accordance with Australian Accounting Standards
- If the holding entity is a registered foreign company – the GPFS must be prepared in accordance with commercially accepted accounting principles (CAAP).

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3 The ‘transitional administrative approach’ was available for the first year of compliance with the GPFS requirements (see section A.4.8).

4 There are exceptions, such as certain small proprietary companies preparing financial reports by direction, and notified foreign passport funds. However, for the purposes of the GPFS requirements, these exceptions are unlikely to be applicable and Australian Accounting Standards would apply to the entity.

5 The ‘transitional administrative approach’ was available for the first year of compliance with the GPFS requirements (see section A.4.8).
Thinking it through – Grandfathered large proprietary companies
Certain so-called ‘grandfathered exempt proprietary companies’ are exempt from the requirement to lodge their financial reports with ASIC. However, such companies are still required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 2001. Because of the general requirement for financial reports prepared under Part 2M.3 to be prepared in accordance with Australian Accounting Standards, such entities are also required to prepare GPFS in accordance with Australian Accounting Standards if they are subject to the GPFS requirements (i.e. are a SGE).

Furthermore, the requirement to lodge GPFS with the ATO under the GPFS requirements is not overridden by such entities’ grandfathered status. Accordingly, grandfathered large proprietary companies that are SGEs are required to lodge GPFS regardless of their exempt status under the Corporations Act 2001.

Thinking it through – Foreign controlled small proprietary companies
Chapter 2M.3 of the Corporations Act 2001 requires a foreign controlled small proprietary company to prepare and lodge a financial report with ASIC, and to prepare that financial report in accordance with Australian Accounting Standards.

However, ASIC Corporations (Foreign Controlled Company Reports) Instrument 2017/204 relieves certain foreign controlled small proprietary companies from their financial reporting obligation under Chapter 2M.3 where that entity is not part of a ‘large group’ (as defined in the Instrument). The premise of a ‘large group’ is linked to the concept of a small proprietary company under the Corporations Act 2001. In essence, relief is only provided to foreign owned small proprietary companies from where the economic presence of the foreign parent in Australia in total (across all entities and operations) is less than the small proprietary company thresholds.

Accordingly, the accounting standards to be applied in GPFS lodged for the GPFS requirements will depend upon whether or not the entity is eligible to, and has taken advantage of, the relief in the Corporations Instrument:

- Foreign owned small proprietary companies which have taken advantage of the Instrument can use Australian Accounting Standards or ‘commercially accepted accounting principles’ (CAAP).
- All other foreign owned small proprietary companies are required to use Australian Accounting Standards only.

The Corporations Amendments (Proprietary Company Thresholds) Regulations 2019 were enacted in April 2019 and have the effect of doubling the threshold tests previously applied, with effect from 1 July 2019. This will mean that more foreign owned entities will become small proprietary companies, and more ‘groups’ (as defined in the instrument) will be able to meet the thresholds in the instrument for the 2019-2010 and later financial years. Accordingly, those entities will not be required to prepare any GPFS lodged with the ATO under the GPFS requirements in accordance with Australian Accounting Standards, and may instead use ‘commercially accepted accounting principles’ (CAAP), including the option of lodging a foreign parent’s consolidated GPFS prepared in accordance with CAAP.

A.4.5 Registered foreign companies reporting under s.601CK of the Corporations Act 2001
A registered foreign company may operate a permanent establishment in Australia and so be subject to the GPFS requirements (see section A.3.6).

The interaction of the registered foreign company provisions with the GPFS requirements depends upon whether the registered foreign company is required to prepare financial statements in its own jurisdiction:

- **Registered foreign company is not required to prepare financial statements in its jurisdiction.** In these circumstances, the company will be subject to subsections 601CK(5), (5A) and (6) of the Corporations Act 2001. These subsections require the entity to prepare the financial statements lodged with ASIC as if it were a public company required to comply with Part 2M.3. As public companies are required to apply Australian Accounting Standards (see section A.4.4), the GPFS lodged with the ATO for these entities must also be prepared in accordance with Australian Accounting Standards.

- **Registered foreign company is required to prepare financial statements in its jurisdiction.** In these circumstances, the GPFS lodged with the ATO can be prepared in accordance with Australian Accounting Standards or commercially accepted accounting principles (CAAP). This is because s.601CK does not impose a requirement to prepare the information lodged with ASIC to be in accordance with Australian Accounting Standards.

Some closely held registered foreign companies that are not part of a ‘large group’ may be eligible for relief from s.601CK of the Corporations Act 2001 under ASIC Corporations (Foreign Controlled Company Reports) Instrument 2017/204. In these cases, the GPFS lodged with the ATO can be prepared in accordance with Australian Accounting Standards or commercially accepted accounting principles (CAAP) as the requirements in subsections 601CK(5), (5A) and (6) will not apply to the entity.
Other permanent establishments operated by foreign entities that are not registered foreign companies are not subject to these additional considerations and have a choice of which accounting standards are applied in preparing their GPFS, i.e. Australian Accounting Standards or commercially accepted accounting principles (CAAP).

Thinking it through – Permanent establishments

The ATO’s guidance notes that the GPFS of a foreign resident conducting a business through a permanent establishment cannot be stand-alone GPFS for the permanent establishment itself. Instead, the GPFS of the foreign resident (incorporating the permanent establishment) must be prepared for the entire entity.

Furthermore, the ATO encourages separate measurement and disclosure of the Australian permanent establishment in GPFS, but also notes if those GPFS 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 the GPFS requirements 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 GPFS prepared for the entity operating the permanent establishment further complicates compliance.

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.

A.4.6 Options on the GPFS to be lodged

The ATO’s guidance acknowledges that there are a number of ways to satisfy the GPFS requirements when preparing and lodging GPFS.

Depending upon the nature of the entity, the following GPFS may be able to be lodged:

- GPFS of the affected taxpayer, 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)
- GPFS 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)
- GPFS 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. The updates to the ATO guidance made in April 2019 clarify that these consolidated financial statements can be for any parent of the affected taxpayer, i.e. it does not need to be the ultimate Australian or global parent, but can any parent of the entity preparing consolidated GPFS

The critical point is that the GPFS for any of the above entities must be prepared in accordance with Australian Accounting Standards if the affected taxpayer is:

- Subject to Part 2M.3 of the Corporations Act 2001, i.e. has an obligation to prepare financial reports where that obligation has not been relieved by an ASIC Corporations Instrument or Class Order
- Subject to s.601C(5), (5A) and (6) of the Corporations Act 2001, i.e. is a registered foreign company that does not have an obligation to prepare financial reports in its own jurisdiction and is therefore required to prepare financial reports in accordance with Australian Accounting Standards
- Otherwise has a requirement to prepare financial reports in accordance with Australian Accounting Standards.

The obligation to prepare GPFS in accordance with Australian Accounting Standards applies when lodging those GPFS in accordance with the GPFS requirements, regardless of whether the entity for which those GPFS are being prepared would otherwise be subject to a different reporting framework. For example, if an affected taxpayer has a reporting obligation under the Corporations Act 2001 and has U.S. parent, if it chooses to lodge the consolidated GPFS of that parent in meeting the GPFS requirements, those GPFS would need to be prepared in accordance with Australian Accounting Standards.

Other affected taxpayers have some choice in which accounting principles are applied (see section A.6.3 and the examples in Appendix A). Therefore, if the affected taxpayer does not have an obligation to prepare financial reports in accordance with Australian Accounting Standards, it may choose to use Australian Accounting Standards or ‘commercially accepted accounting principles’ (CAAP).

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6 However, note the ATO’s views on preparing general purpose financial statements for permanent establishments discussed on page 13.

7 The ‘transitional administrative approach’ was available for the first year of compliance with the GPFS requirements (see section A.4.8).
A.4.7 What are ‘commercially accepted accounting principles’ (CAAP)?

The ATO’s guidance indicates that the following accounting standards and principles will be accepted as ‘commercially accepted accounting principles’ for the purposes of the GPFS requirements:

- International Financial Reporting Standards (IFRS)
- Accounting standards that are IFRS compliant as published on IFRS.org (such as Australian Accounting Standards or IFRS as adopted by the European Union)
- US generally accepted accounting principles (GAAP)
- Accounting standards that are accepted by ASX Limited from time to time for the purposes of the ASX Listing Rules.

Where other accounting standards listed above do not apply in an entity’s particular circumstances, the ATO’s guidance indicates that the principles and guidance provided in Australian Auditing Standard ASA 210 Agreeing the Terms of Audit Engagements can assist in determining whether the accounting standards applied in preparing GPFS are accepted as CAAP.

A.4.8 ATO’s transitional administrative approach for the first year of the legislation being operative

The ATO adopted a transitional administrative approach for the first year the GPFS requirements were operative (i.e. income years commencing on or after 1 July 2016)\(^8\). As this period has passed, this is noted in summary terms only. Entities that took advantage of the transitional administrative approach in their first year of compliance with the GPFS requirements may need to plan for how compliance is achieved in subsequent years.

Relief from preparation in accordance with Australian Accounting Standards in some circumstances

This transitional administrative approach applied for an income year that commenced between 1 July 2016 and 30 June 2017 and permitted entities that are required to prepare GPFS in accordance with Australian Accounting Standards to lodge consolidated GPFS that relates to the entity using commercially accepted accounting principles (CAAP). The transitional administrative approach permitted the entity to prepare those GPFS in accordance with CAAP instead of Australian Accounting Standards.

The effect of this transitional administrative approach is that an effected entity that would otherwise be required to lodge GPFS in accordance with Australian Accounting Standards can instead lodge GPFS of a parent prepared in accordance with the accounting standards applying to the parent itself.

In other words, the foreign parent’s GPFS could 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.

Extension of time period to comply with the GPFS requirements

This transitional administrative approach also previously provided a lodgment concession if an entity’s income tax year ended on 30 June 2017. In these cases, the entity had until 4 April 2018 to lodge GPFS with the ATO, rather than the due date of lodgment of the entity’s tax return, generally the fifteenth day of the seventh month after the close of the accounting period, being 15 January 2018\(^9\).

The update to the ATO’s guidance in April 2019 removed reference to the lodgment concession as it is no longer relevant. Accordingly, in subsequent periods, the lodgement concession will not apply and the lodgment date will be relevant date for lodgment of the entity’s tax return.

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\(^8\) The ATO amended the transitional administrative approach in April 2019 to clarify that it was intended to operate broadly, and not apply to a subset of entities subject to the GPFS requirements. This permitted a greater population of entities to lodge GPFS using CAAP in their first year of compliance. The transitional administrative approach can be found at [https://www.ato.gov.au/Business/Public-business-and-international/General-purpose-financial-statements/Transitional-administration-approach-for-GPFS/](https://www.ato.gov.au/Business/Public-business-and-international/General-purpose-financial-statements/Transitional-administration-approach-for-GPFS/)

\(^9\) June balancing companies that are not full self-assessment (NFSA) taxpayers are required to lodge their tax returns by the first day of the sixth 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](http://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.5 Step 4 – Determine whether the GPFS requirements apply to the entity’s financial year

A.5.1 Understanding ‘financial year’ for the purposes of GPFS requirements

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 GPFS with the lodgment of the entity’s tax return for the relevant period (see section A.6.1). An entity’s income year for tax purposes may be different from its financial year for financial reporting purposes.

Sections 3CA(1) and (2) of the Tax Administration Act refer to the term “financial year”, which is further defined later in s.3CA(6) 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.

Furthermore, for other corporate tax entities, the ATO guidance says, for the purposes of the GPFS requirements, the financial year will be identical to the annual accounting period adopted. The guidance goes on to clarify that the accounting period and the ‘financial year’ may not necessarily start on 1 July and that the financial year may not necessarily align with an entity’s income year.

A.5.2 Determining the most closely corresponding financial year

The ATO’s guidance indicates that the ‘financial year most closely corresponding to the income year’ will generally be the financial year most recently concluded on or before the end of the income year.

**Lodging GPFS of a foreign parent with a different financial year to the affected taxpayer – Example**

Company M has an income year and financial year ending on 31 December 20X6 and is a SGE. M is wholly-owned by a foreign parent, Company N, which has a financial year ending in March and prepares GPFS in accordance with commercially accepted accounting principles (CAAP).

M has taken advantage of Corporations Instruments (Foreign-Controlled Company Reports) Instrument 2017/204 and accordingly, is relieved of an obligation to prepare and lodge financial reports with ASIC. In order to meet its obligations under the GPFS requirements, M intends to lodge the consolidated GPFS of N with the ATO.

In respect of M’s income year ending 31 December 20X6, the most closely corresponding financial year of N is the year ending 31 March 20X6, as this is the financial year of N concluded on or before the end of M’s income year. The consolidated GPFS of N for the financial year ending 31 March 20X7 will be the most closely corresponding for M’s financial year ending on 31 December 20X7.

A.5.3 Changes in financial years

Companies incorporated under the Corporations Act 2001 can or must change their financial year for financial reporting purposes, e.g. to align their financial year with a new parent entity, or to better align financial reporting with the entity’s business cycle or industry peers.

In these cases, identifying the ‘financial year most closely corresponding to the income year’ can be difficult because the financial year may cover more than one income year, particularly where the entity extends its financial year. Amendments made to the ATO’s guidance in April 2019 clarify how the relevant financial year is to be determined for GPFS requirements purposes.

The ATO’s guidance illustrates that where an extended financial year covers the entity’s original financial year (and income year), the GPFS for the financial year may be for a period ending after the end of the entity’s income year. This is an exception to the normal approach where the GPFS must be for a period ending on or before the end of the income year.
**Changing financial years – example**

Company P has an income year and financial year ending on 30 June 20X1. In May 20X1, Company P is acquired by Company Q and joins Q's tax-consolidated group. Company Q has a financial year ending on 30 September 20X1 and Company P's financial year is extended to end on this date in accordance with the requirements of the *Corporations Act 2001*. Company P is an SGE required to comply with the GPFS requirements.

Company P has an obligation to lodge its income tax return for the 12 months ended 30 June 20X1. However, the entity's financial year no longer ends on 30 June 20X1 and accordingly, there are no financial statements prepared for this period. Following the ATO's guidance, the entity can lodge its GPFS for the financial year for the 15 months from 1 July 20X0 to 30 September 20X1 to achieve compliance with GPFS requirements. Alternatively, the GPFS for the period can be lodged with ASIC under the *Corporations Act 2001* and the entity would not have to meet the GPFS requirements.

**A.5.4 Newly incorporated entities**

Updates to the ATO's guidance in April 2019 clarify that whether a newly incorporated entity is captured by the GPFS requirements will depend on its financial year for financial reporting purposes and its income year for income tax purposes.

If the financial year and income year coincide, the GPFS requirements will be triggered at the end of the income year (assuming the criteria are met), even if that period is longer than 12 months. However, if the financial year is longer than the initial income year for income tax purposes, although there is a requirement to lodge an income tax return, there is no “financial year that can be said to correspond to the income year”, and accordingly, there is no GPFS lodgment requirement in respect of this period.

**Newly incorporated entities – example**

Company R is incorporated at the end of April 20X8 with a June financial year and meets the criteria to be a SGE required to lodge GPFS with the ATO. In accordance with section 323D of the *Corporations Act 2001*, the entity chooses to adopt a 14 month financial year ending on 30 June of the year following incorporation (June 20X9). However, for tax purposes, the entity is required to lodge a tax return for the 2 month period to June 20X8. In this case, although the entity is required to prepare and lodge a tax return for the 2 month period, there is no financial year that ends on or before June 20X8, and accordingly, there is no requirement to lodge GPFS (assuming the criteria are met) in respect of that period.
A.6 Putting it all together

A.6.1 Deadlines for submitting GPFS to the ATO

The GPFS requirements require an affected entity to lodge their GPFS with the ATO on or before the day by which the entity is required to lodge its income tax return for the income year.

The due date for lodgment of an entity’s tax return is generally the fifteenth day of the seventh month after the close of the accounting period (unless otherwise extended). For June balancing companies, this means that generally the due date for lodgment of GPFS with the ATO is 15 January of the subsequent calendar year.

A.6.2 ATO’s summary of entities affected

The table below, reproduced from the ATO’s guidance, outlines the broad categories of entities that may be impacted by the GPFS requirements. “You” in the table means the Australian taxpayer that may be subject to the GPFS requirements.

<table>
<thead>
<tr>
<th>Type of scenario</th>
<th>GPFS obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You:</td>
<td></td>
</tr>
<tr>
<td>• Lodge a GPFS with ASIC within the stipulated time, or</td>
<td>None.</td>
</tr>
<tr>
<td>• Are a subsidiary member of an Australian tax consolidated group or MEC group, except where you enter or leave that group part-way through the income year</td>
<td>Note: Administrative relief for late lodgment with ASIC is available (see section A.3.7).</td>
</tr>
<tr>
<td>2. You:</td>
<td>You must give the ATO a GPFS prepared in accordance with Australian Accounting Standards.</td>
</tr>
<tr>
<td>• Are required to lodge a GPFS with ASIC, but do not do so</td>
<td></td>
</tr>
<tr>
<td>• Lodge special purpose financial statements (SPFS) with ASIC</td>
<td></td>
</tr>
<tr>
<td>• Are required to prepare, but not lodge financial reports with ASIC (for example, grandfathered large proprietary companies), or</td>
<td></td>
</tr>
<tr>
<td>• 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.</td>
<td></td>
</tr>
<tr>
<td>3. You are an Australian resident for tax purposes, and you are:</td>
<td>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).</td>
</tr>
<tr>
<td>• Not subject to the Corporations Act (for example, corporate limited partnerships)</td>
<td></td>
</tr>
<tr>
<td>• Not subject to Part 2M.3 of that Act (for example, certain small proprietary companies), or</td>
<td></td>
</tr>
<tr>
<td>• Otherwise relieved from preparing financial reports by ASIC because:</td>
<td></td>
</tr>
<tr>
<td>o You are a small proprietary company controlled by a foreign company that is not part of a large group, or</td>
<td></td>
</tr>
<tr>
<td>o Your foreign parent lodges consolidated financial statements with ASIC, which are prepared in accordance with accounting standards applicable in your parent’s home country.</td>
<td></td>
</tr>
<tr>
<td>4. You are a foreign resident operating a permanent establishment (PE), and did not lodge a GPFS with ASIC (for example, registered foreign companies).</td>
<td>In most circumstances, you are required to give the ATO a GPFS prepared in accordance with CAAP.</td>
</tr>
</tbody>
</table>

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10 A lodgment concession was available in the first year of compliance (see section A.4.8).

11 June balancing companies that are not full self-assessment (NFSA) taxpayers are required to lodge their tax returns by the first day of the sixth month following the income year, being 1 December. 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](http://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.

12 This may be the case where an entity is a foreign entity but is not required to be registered under the Corporations Act 2001 (e.g. certain foreign trusts operating a permanent establishment in Australia).
A.6.3 Understanding options for compliance

The following table summarises the various types of corporate tax entities that may be captured by the GPFS requirements, and outlines the various options in the type of GPFS submitted to the ATO in accordance with the ATO's guidance:

<table>
<thead>
<tr>
<th>Type of corporate tax entity</th>
<th>GPFS prepared using Australian Accounting Standards</th>
<th>GPFS prepared using commercially accepted accounting principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies required to prepare financial statements under Corporations Act 2001:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Not controlled by a parent</td>
<td>Yes</td>
<td>n/a</td>
</tr>
<tr>
<td>- Controlled by an Australian parent</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>- Controlled by a foreign parent</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>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</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Large proprietary companies that are ‘grandfathered’ under ASIC Corporations (Exempt Proprietary Companies) Instrument 2015/840 and so are not required to lodge financial reports with ASIC</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Wholly-owned subsidiary which is relieved from the requirement to prepare financial reports by ASIC Corporations (Wholly owned Companies) Instrument 2016/785</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>- Holding entity is an Australian entity</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>- Holding entity is a registered foreign company</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Small foreign controlled proprietary companies which are relieved from the requirement to prepare financial reports by ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

---

13 This table excludes consideration of the transitional administrative approach available in the first year of compliance (see section A.4.8).

14 See section A.4.7 for a discussion of ‘commercially accepted accounting principles’ (CAAP).

15 Care should be exercised where there is a “Yes” in this column and the taxpayer is an Australian entity that 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 clarified that GPFS do not need to 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 GPFS. 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.

16 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). Although the wording in the GPFS requirements refers to the lodgment requirements in s.319 of the Corporations Act 2001, the ATO's guidance clarifies lodgment under Part 2M.3 or s.601CK is considered ‘lodgment’ for the purposes of the GPFS requirements.

17 Although theoretically GPFS prepared using Australian Accounting Standards could be considered ‘commercially accepted accounting principles’, in general it is expected that the GPFS will be prepared in accordance with the requirements applying to the entity in its home jurisdiction (which may be Australian Accounting Standards where the parent for which GPFS are prepared is incorporated in Australia).
### Type of corporate tax entity

| Registered foreign companies operating a permanent establishment in Australia                  | Taxpayer | Parent | Taxpayer | Parent |
|                                                                                            |          |        |          |        |
| - Eligible for relief under Corporations (Foreign-Controlled Company Reports) Instrument 2017/204 | Yes      | Yes    | Yes      | Yes    |
| - No requirement to prepare financial reports in home jurisdiction (i.e. subject to s.601CK(5), (5A), (6)) | Yes      | Yes    | No       | No     |
| - Has a requirement to prepare financial reports in home jurisdiction                        | No\(^{18}\) | No\(^{18}\) | Yes      | Yes    |

| 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    |

### Common scenarios

We have developed a number of common scenarios illustrating which entities are required to prepare GPFS, for which entities GPFS can be lodged, and under which accounting standards. These scenarios can be found in Appendix C.

The ATO guidance also includes a number of examples that are helpful in determining how to achieve compliance with the GPFS requirements.

### 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 GPFS 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 GPFS 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 GPFS are prepared for the entity or a parent. It follows that Australian taxpayers that are not required to lodge financial reports under the Corporations Act 2001 (including where due to ASIC relief) are not subject to these restrictions and accordingly, have more flexibility in determining the basis of accounting under which GPFS can be prepared.

\(^{18}\) Although theoretically GPFS prepared using Australian Accounting Standards could be considered ‘commercially accepted accounting principles’, in general it is expected that the GPFS will be prepared in accordance with the requirements applying to the entity in its home jurisdiction.
Part B  Preparing GPFS under Australian Accounting Standards

Note on use of other GAAPs
The information in this section applies only where the entity is preparing GPFS in accordance with Australian Accounting Standards. Where other GAAPs are permitted in the preparation of the financial statements (see section A.4.7), this guidance will not apply and the requirements of the specific GAAP being applied should be considered instead.

B.1 Definition of GPFS
‘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.”

B.2 Types of GPFS
B.2.1 Two ‘Tiers’ of GPFS
AASB 1053 Application of Tiers of Australian Accounting Standards sets out how different categories of entities preparing GPFS apply the two ‘Tiers’ of GPFS19:

- **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 the GPFS requirements is achieved. In doing so, the guidance explicitly mentions that an entity may be able to satisfy the measure by providing GPFS prepared using Tier 2 Reduced Disclosure Requirements. Accordingly, the ATO is not suggesting that only Tier 1 GPFS will be suitable for the purposes of the GPFS requirements.

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 achieve public 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 GPFS, in order to comply with the ‘spirit of the law.’

In some cases, this may mean entities choose to prepare Tier 1 GPFS where there are not otherwise required, or alternatively, provide additional information in their Tier 2 GPFS, e.g. more detailed information on income taxes and related party transactions consistent with those provided in Tier 1 GPFS.

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19 As noted in footnote 2, the IASB has released a revised *Conceptual Framework for Financial Reporting*. The revised framework defines a ‘reporting entity’ in terms of the boundary of financial reporting, rather than as a differential reporting determinant as it is currently used in Australia. Because of this conflict, the AASB is proposing to ultimately remove the ability of entities to prepare special purpose financial reports in accordance with Australian Accounting Standards. This means all financial reports lodged under Part 2M.3 of the *Corporations Act 2001* would be required to be GPFS. As part of this process, the nature of the tiers of reporting available for GPFS may change, and this will directly impact the GPFS lodged under the GPFS requirements. The AASB has not yet finalised its consultation on these possible changes.
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:

<table>
<thead>
<tr>
<th>Definition inclusion</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>The entity’s debt or equity instruments are traded in a public market or it is in</td>
<td>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</td>
</tr>
<tr>
<td>the process of issuing such instruments for trading in a public market*</td>
<td>Entities with American Depository Receipts (ADRs) on issue</td>
</tr>
<tr>
<td></td>
<td>Entities listed on the Alternative Investment Market (AIM) of the London Stock Exchange</td>
</tr>
<tr>
<td>The entity holds assets in a fiduciary capacity for a broad group of outsiders</td>
<td>Banks, credit unions, building societies, insurance companies, securities brokers/dealers, mutual funds and investment banks</td>
</tr>
<tr>
<td>as one of its primary businesses</td>
<td>* A domestic or foreign stock exchange or an over-the-counter market, including local and regional markets</td>
</tr>
</tbody>
</table>

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 GPFS?

An entity with a foreign parent may wish to lodge GPFS 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 where the ATO’s guidance requires these standards to be applied. In this case, care is needed when 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 GPFS.

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20 As noted in footnote 19, the AASB is investigating changes to financial reporting in Australia as a result of the IASB’s revised Conceptual Framework for Financial Reporting. As part of this process, the AASB has proposed aligning the definition of “public accountability” with that contained in the IFRS for Small- and Medium-sized Entities and may result in the removal of those entities ‘deemed’ to have public accountability. The AASB’s proposals have not been finalised at the date of this publication.
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.

<table>
<thead>
<tr>
<th>Disclosure items generally retained</th>
<th>Disclosure items generally omitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Format and layout of the primary financial statements</td>
<td>• Detailed narrative disclosure, e.g. nature and extent of risks arising from financial instruments under AASB 7, standards on issue but not yet effective</td>
</tr>
<tr>
<td>• Descriptions of accounting policies and methods</td>
<td>• Detailed information on how amounts have been measured, e.g. share-based payments, fair values</td>
</tr>
<tr>
<td>• Key amounts included in the financial statements, e.g. impairment and reversals, breakdown of revenue, discontinuing operations, fair value adjustments, gains and losses</td>
<td>• 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</td>
</tr>
<tr>
<td>• Movement schedules, e.g. share-based payments, property, plant and equipment, intangible assets, goodwill, and investment property</td>
<td>• Many additional Australian disclosures, e.g. audit fees, franking credits, reconciliation of net operating cash flow to profit or loss</td>
</tr>
<tr>
<td>• Reconciliations of key transactions and balances, e.g. business combination breakdowns, income tax expense and deferred tax balances</td>
<td>• Most disclosures required by Interpretations.</td>
</tr>
<tr>
<td>• Significant uncertainties and judgements</td>
<td></td>
</tr>
<tr>
<td>• Information about the entity and its related parties (but not necessarily details of transactions and balances)</td>
<td></td>
</tr>
</tbody>
</table>

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 GPFS 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, those requirements need to be fully complied with in preparing GPFS.

Due to ASIC guidance on the preparation of special purpose financial statements 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 lodgment under the Corporations Act 2001, the amounts included in those GPFS 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 GPFS, 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 GPFS is that GPFS often have to be prepared on a consolidated basis. 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 stand-alone 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 GPFS, as all of the information for subsidiaries is also required to be prepared and presented in GPFS 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 GPFS under either Tier 1 or Tier 2.

<table>
<thead>
<tr>
<th>Element</th>
<th>Level of compliance under various frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary financial statements</td>
<td></td>
</tr>
<tr>
<td>- Statement of profit or loss and other comprehensive income (one or two statements)</td>
<td>Full*</td>
</tr>
<tr>
<td>- Statement of financial position</td>
<td>Full*</td>
</tr>
<tr>
<td>- Statement of changes in equity</td>
<td>Full*</td>
</tr>
<tr>
<td>- Statement of cash flows</td>
<td>Full*</td>
</tr>
<tr>
<td>Breakdowns of material and significant balances into component parts (by way of notes)</td>
<td>Some</td>
</tr>
<tr>
<td>General information about the entity</td>
<td>Full*</td>
</tr>
<tr>
<td>Significant accounting policies</td>
<td>Full*</td>
</tr>
<tr>
<td>Impact of new and revised Accounting Standards and Interpretations on issue but not yet adopted</td>
<td>Full*</td>
</tr>
<tr>
<td>Critical accounting judgements and key sources of estimation uncertainty</td>
<td>Full*</td>
</tr>
<tr>
<td>Information about the revenue of the entity</td>
<td>None</td>
</tr>
<tr>
<td>Segment information</td>
<td>None</td>
</tr>
<tr>
<td>Information about income taxes</td>
<td>None</td>
</tr>
<tr>
<td>Information about discontinued operations and assets held for sale</td>
<td>Limited</td>
</tr>
<tr>
<td>Information about specified components of profit or loss for the year</td>
<td>Limited</td>
</tr>
<tr>
<td>Information about impairment losses</td>
<td>Limited</td>
</tr>
<tr>
<td>Information about fair value measurements</td>
<td>None</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>None</td>
</tr>
<tr>
<td>Reconciliations of movements in non-current assets</td>
<td>None</td>
</tr>
<tr>
<td>Element</td>
<td>Level of compliance under various frameworks</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>SPFS*</td>
</tr>
<tr>
<td>Information about investments in other entities</td>
<td>None</td>
</tr>
<tr>
<td>Information about financial instruments (including risk management)</td>
<td>None</td>
</tr>
<tr>
<td>Information about defined benefit plans</td>
<td>None</td>
</tr>
<tr>
<td>Information about related party transactions</td>
<td>None</td>
</tr>
<tr>
<td>Information about share based payments</td>
<td>None</td>
</tr>
<tr>
<td>Acquisitions and disposals of businesses</td>
<td>Full*</td>
</tr>
<tr>
<td>Further information about cash</td>
<td>Full*</td>
</tr>
<tr>
<td>Contingent liabilities and contingent assets</td>
<td>None</td>
</tr>
<tr>
<td>Remuneration of auditors</td>
<td>Full*</td>
</tr>
</tbody>
</table>

* 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 statements under Australian Accounting Standards. In particular, entities preparing special purpose financial statements 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 GPFS 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 different 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 available at [www.deloitte.com/au/models](http://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, i.e. the financial report prepared for the financial year in which the entity was incorporated.

**Thinking it through – Entities which may trigger the GPFS requirements in one period but not another**

Because the key determinant of whether an entity is captured by the GPFS requirements is the determination of ‘annual global income’ (see section A.2.4), 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 compliance with the GPFS requirements is required.

B.4.2 Requirement for audit

There is no explicit requirement arising under the GPFS requirements 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.

The ATO's guidance also notes that where a practitioner is engaged to compile financial statements under a compilation engagement, the practitioner is required to prepare them with professional competence and due care, and in accordance with the applicable financial reporting framework. The guidance goes on to note GPFS prepared under a compilation agreement will be at lower risk of non-compliance with the appropriate accounting standards but will not benefit from the same level of assurance as an audited GPFS.

B.4.3 Requirement for directors’ report and directors’ declaration

The ATO's guidance states that a directors' declaration or directors' report is only required to be included in GPFS where they are required under the relevant ‘commercially accepted accounting principles’. As these requirements are imposed on Australian entities by Part 2M.3 of the Corporations Act 2001, this implies they are not required where Australian Accounting Standards are applied in preparing GPFS for lodgment with the ATO.

However:

- Where the GPFS being lodged to meet the GPFS requirements are subject to audit or review in accordance with the ATO's best practice guidance, a declaration or similar statement may be necessary
- Where the entity seeks to avoid the GPFS requirements by lodging GPFS with ASIC as part of its obligations under Part 2M.3 of the Corporations Act 2001 (see section A.3.5), a directors’ report and directors’ declaration would need to be included.
B.4.4 Transitional requirements applying when moving to GPFS

Australian Accounting Standards contain detailed requirements on transitioning between special purpose and GPFS, 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 below provide a summary of the decision making process for the majority of cases for for-profit private sector entities.

### Adopting Tier 1

- **Were the entity's previous financial statements special purpose financial statements?**
  - Yes: Apply AASB 1 without applying the AASB 108 option in AASB 1
  - No: Proceed to the next question.

- **Is the entity transitioning from Tier 2 to Tier 1?**
  - Yes: Special case, apply the requirements of AASB 1053\(^{(1)}\)
  - No: Proceed to the next question.

- **Has the entity applied Tier 1 or IFRS in a previous reporting period?**
  - Yes: Proceed to the next question.
  - No: Proceed to the next question.

- **Does the entity wish to claim IFRS compliance on resuming Tier 1?**
  - Yes: Apply AASB 1 or the option of applying AASB 108 in AASB 1
  - No: Proceed to the next question.

- **Was the entity previously IFRS compliant?**
  - Yes: Proceed to the next question.
  - No: Proceed to the next question.

- **Has the entity applied Tier 1 or IFRS in a previous reporting period?**
  - Yes: Proceed to the next question.
  - No: Proceed to the next question.

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\(^{(1)}\) This might arise where the entity has never prepared financial statements under Australian Accounting Standards and is doing so for the first time in order to meet the GPFS requirements. In this case, the applicable transition framework will depend on whether the entity has ever made a statement of compliance with IFRS.
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 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 statements 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.

**Moving from stand-alone SPFS to consolidated Tier 2 GPFS**

Additional interpretational issues arise in applying AASB 1053 in situations where an entity is moving from preparing stand-alone special purpose financial statements to consolidated Tier 2 (RDR) GPFS. Similar issues may arise where an entity is applying the equity method for the first time.

Because the transitional requirements that apply depend upon whether the entity has previously applied all the recognition and measurement requirements of Australian Accounting Standards, the question arises as to whether consolidation is considered a recognition and measurement requirement, particularly where an entity previously otherwise applied all recognition and measurement requirements in its special purpose financial statements.

In our view, the application of consolidation principles in the financial report of the entity should trigger the requirements in AASB 1053 where all recognition and measurement requirements have not previously been applied\(^\text{(1)}\). Accordingly, an entity in this situation will have the choice of applying AASB 108 (full retrospective application) or AASB 1 (which among other requirements, permits certain transitional provisions in relation to previously unconsolidated subsidiaries).

The choice that each entity makes between AASB 108 and AASB 1 in these circumstances will depend on whether sufficient information is available to retrospectively restate the consolidated financial information included in the GPFS. In some cases, entities may not have prepared consolidated financial information in accordance with Australian Accounting Standards in the past, and the application of optional exceptions to full restatement in AASB 1 may be attractive. In other cases, the information will be available and the consolidated financial information may be more readily prepared.

\(^{21}\) There remains some uncertainty about how to apply AASB 1053 (or AASB 108) in these circumstances. The first-time preparation of consolidated financial statements may be seen as a ‘new’ set of financial statements (which would trigger the application of AASB 1 in all cases), or alternatively, the consolidated financial statements could apply the transitional provisions of AASB 10 Consolidated Financial Statements.  
While we understand the preferred view is that AASB 108 or AASB 1 can be applied in these circumstances, there may be other views. The AASB currently has a project underway to respond to the issue of the new Conceptual Framework for Financial Reporting (see footnote 20) which might be expected to consider how entities should transition from stand-alone special purpose financial statements to consolidated general purpose financial statements.
**Considering additional disclosures on transition**

An entity preparing GPFS for the first time need not only consider which Accounting Standards apply to the transition, but they also need to consider the additional disclosures to be included in those GPFS.

Where AASB 1 is applied, there are a raft of disclosures to be considered, including reconciliations from prior reported amounts. These disclosures are substantially less, but not eliminated, for ‘Tier 2’ (RDR) GPFS.

Similarly, where accounting policies change when applying AASB 108, additional disclosures are required under that Standard.

Even where full recognition and measurement requirements of all Australian Accounting Standards have been previously applied in preparing special purpose financial statements, additional disclosures are recommended to alert users of the GPFS of the change in presentation.

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**Example**

Where stand-alone or consolidated special purpose financial statements were previously prepared following all recognition and measurement requirements of Australian Accounting Standards and the stand-alone or consolidated ‘Tier 2’ (RDR) reports are being prepared for the first time, a statement similar to the following should be included in the basis of preparation note:

“The company previously prepared special purpose financial statements and in doing so applied the recognition and measurement requirements of all Australian Accounting Standards. The comparative information in this financial report has been re-presented in order to comply with the relevant presentation and disclosure requirements of all relevant Australian Accounting Standards – Reduced Disclosure Requirements.”
B.4.5 Converting GPFS of a parent to Australian Accounting Standards

Overview

The ATO’s guidance provides that an entity controlled by a foreign parent and having an obligation to lodge financial statements under the Corporations Act 2001 (see section A.3.5) would need to prepare GPFS in accordance with Australian Accounting Standards22.

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 GPFS 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 otherwise includes 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 GPFS 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 GPFS are finalised (from both a disclosure and adjustment process)
- Updating when the GPFS 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 comply with 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 be 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.
B.4.6 Considering whether to lodge GPFS under the Corporations Act 2001

A corporate tax entity that is otherwise captured by GPFS requirements is only required to lodge GPFS with the ATO if it has not lodged GPFS with ASIC (see section A.3.5). Accordingly, some entities may choose to prepare and lodge GPFS under Part 2M.3 of the Corporations Act 2001, rather than preparing special purpose financial statements for ASIC purposes and then preparing GPFS to lodge with the ATO. The preparation of two sets of financial statements for the same entity for the same period may raise additional considerations for directors and auditors.

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 whether to lodge GPFS with ASIC:

- It only requires the preparation of one set of financial statements to effectively meet both requirements (i.e. by eliminating the GPFS obligation)
- It eliminates, with some exceptions, the need to address remaining interpretational issues associated with the GPFS requirements
- It 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
- GPFS generally contain more information than special purpose financial statements and accordingly may take longer to prepare, potentially requiring system changes and greater information gathering
- The preparation of GPFS 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 GPFS for a foreign parent (where this is available and able to be used)
- The deadline for compliance with GPFS requirements is generally later than financial reporting under the Corporations Act 2001, and accordingly, the time available to gather information and prepare GPFS may be reduced compared to lodging two different sets of financial statements
- GPFS lodged with ASIC are generally required to be subject to audit, whereas there is not explicit requirement for financial statements lodged under the GPFS requirements to be audited
- Adopting this approach may not have been attractive in the first year the GPFS requirements were operative, when the transitional administrative approach was available (meaning the parent's unadjusted GPFS could be lodged in full compliance, see section A.4.8).

Thinking it through – Effect of lodgment of GPFS

It is important to recognise that the GPFS lodged to comply with the GPFS requirements will be given to ASIC and will then become publicly available (after the payment of a fee in some cases). Accordingly, where the entity is required to lodge GPFS, that information will be available and can be requested by the public, whether they have been lodged directly with ASIC or via the ATO. Therefore, for Australian corporate tax entities that do not have the option of lodging the GPFS of a foreign parent entity, this consideration is not substantive, other than that the timeline for lodgment with the ATO is usually later under the GPFS requirements.

However, as noted in the consideration points above, SGEs with a foreign parent may choose to lodge consolidated GPFS of the parent instead of the local Australian corporate tax entity in some cases. 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, 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 GPFS requirements 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 affected by the GPFS requirements need to understand the requirements, including the updated ATO guidance released in April 2019, and develop a strategy to meet them within the required timeframes. Given the ATO guidance on the GPFS requirements was initially issued late in the compliance process and then updated in April 2019, ongoing compliance can be challenging and require detailed analysis.

Important note

The information in this publication has been prepared on the basis of the updated ATO guidance issued on 8 April 2019. It is not expected that the ATO will provide further updates to this guidance, but this possibility should not be dismissed given the ongoing interpretational issues arising.
Appendix A – Determining when ‘stand-alone GPFS’ can be lodged under the GPFS requirements

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, GPFS 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 the GPFS requirements. Note that this flowchart does not apply to entities operating permanent establishments (see instead the discussion on page 14).

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(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. This requires, among other factors, that the financial statements of the foreign parent be prepared in accordance with IFRS. In addition, investment entities applying the consolidation exemption to all their subsidiaries under paragraph 31 of AASB 10 are also exempt from consolidation.

(2) These must be prepared as general purpose financial statements if being lodged under the GPFS requirements. Where Tier 1 GPFS 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.

(3) However, investment entities applying the consolidation exemption to all their 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 the GPFS requirements, they must be prepared as GPFS.

(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 8 of the ATO’s guidance notes that consolidated financial statements “would typically be presented as additional columns alongside the stand-alone financial statements”. The consolidated financial statements must still be prepared and available if requested, and directors and auditors may need to consider the implications of having two sets of financial statements for the same entity for the same period.
Thinking it through – Not preparing consolidated financial statements

Under AASB 10 Consolidated Financial Statements, an entity is not required to prepare consolidated financial statements where, among other requirements, a parent prepares and lodges financial statements in accordance with International Financial Reporting Standards and the entity (or group) is not a reporting entity. This may be available where an Australian company has a foreign parent, or where such an entity has foreign subsidiaries itself.

However, caution should be exercised in applying the exemption in AASB 10 in these circumstances:

- 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.
- 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’ and the ATO’s ‘best practice’ guidelines to determining which option of compliance with GPFS requirements best achieve public transparency of the Australian entities affairs.
- Without consolidated financial statements of the ultimate Australian parent entity, any taxpayer subsidiaries of that entity would also be captured by the GPFS requirements and so be required to prepare and lodge GPFS, which may substantially increase the workload required to ensure compliance with the GPFS requirements. This is because the subsidiary could otherwise lodge the consolidated GPFS of the ultimate Australian parent in meeting the GPFS 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 GPFS. In addition, the guidance notes entities that are parents which are not exempt under AASB 10 can give stand-alone GPFS if the entity also complies with AASB 127 Separate Financial Statements, including any requirement to present consolidated financial statements.
Appendix B – Frequently asked questions

Background
This appendix sets out a number of commonly asked questions about the GPFS 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 the GPFS requirements?
Generally, no. Only a taxpayer can be captured by the GPFS requirements, 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.3.2). 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.3.4).

How does an Australian entity that is jointly controlled by other entities determine whether it is captured by the GPFS requirements?
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.2.4 and Scenario 5 in Appendix C.

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 the GPFS requirements (unless it has lodged GPFS with ASIC). Complications can arise where an entity joins or leaves a consolidated group during an income year (see section A.3.4 and the ATO examples included in the ATO’s guidance).

How do the GPFS requirements apply in an entity’s first financial year?
Whether a newly incorporated entity is captured by the GPFS requirements will depend on its financial year for financial reporting purposes and its income year for income tax purposes. If the financial year and income year coincide, the GPFS requirements will be triggered at the end of the income year (assuming the criteria are met), even if that period is longer than 12 months. However, if the financial year is longer than the initial income year, although there is a requirement to lodge an income tax return, there is no “financial year most closely corresponding to the income year” (see section A.5.4).

Preparing GPFS
Can ‘Tier 2’ (Reduced Disclosure Requirements) be used to prepare GPFS lodged under the GPFS requirements?
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 the parent’s status 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.6.3)

Do GPFS need to be audited?
It depends. The ATO guidance states that there is no explicit requirement for audit under the GPFS requirements, 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 the GPFS requirements are 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 the GPFS requirements. See also section A.5.

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 an income tax year ended on 30 June 2017 were given a first-year only extension to lodge their GPFS by 4 April 2018 (rather than mid-January 2018 that would otherwise apply). See also section A.4.8.

Where can I find more guidance on preparing GPFS?

In addition to Part B of this publication, further information about preparing GPFS can be found in our Australian financial reporting guide and Model financial statements, both available at [www.deloitte.com/au/models](http://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 the GPFS requirements?

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?

It depends. Where the entity is required to lodge financial reports under the Corporations Act 2001 and is also required to lodge with the ATO under the GPFS requirements (e.g. where the entity has lodged special purpose financial statements with ASIC), then the GPFS will have to be lodged with both ASIC and the ATO. However, the GPFS required to be lodged with the ATO under the GPFS requirements are only required to be lodged with the ATO in accordance with the ATO's guidelines, and do not also have to be lodged with ASIC by the entity, but will be given to ASIC by the ATO (see also 'Thinking it through' in section B.4.6).

Can I lodge GPFS for a parent where the parent has a different financial year to the Australian corporate entity?

Yes, the ATO's guidance states this is possible. It is important to note that the lodged GPFS must generally be for a period that ends on or before the end of the entity's income year for tax purposes. For example, if an entity has a December year end but its (foreign) parent prepares GPFS for its March year end, the parent's GPFS that are lodged will be for the March ending during the income year, rather than the March ending after the income year (see section A.5.2).
Appendix C – Common scenarios

Background
This appendix sets out a number of common scenarios where an entity may have an obligation to lodge GPFS under the GPFS requirements, together with the ways in which compliance might be achieved.

In this Appendix, entities that have, or may have, an obligation to lodge GPFS are coloured green.

Scenario 1 – Foreign owned tax-consolidated groups

Fact pattern
An Australian company, Head Company B, has two subsidiaries (Subsidiary C and Subsidiary D) and has formed a tax-consolidated group with Head Company B as the head entity. Subsidiary D has been acquired during the year and was a taxpayer in its own right prior to being acquired and joining the tax-consolidated group.

All Australian entities are SGEs due to the consolidated income of their parent, Global Parent A. Each company lodges stand-alone special purpose financial statements under Part 2M.3 of the Corporations Act 2001.

Which entities are required to lodge GPFS with the ATO?
The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Head Company B (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, because Subsidiary D was a taxpayer for part of the income year prior to being acquired, the ATO guidance explains that it is also required to lodge GPFS.

What basis of accounting is used to prepare the GPFS?
Because Head Company B and Subsidiary D are incorporated under the Corporations Act 2001, and have a reporting obligation under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

However, in the first year the GPFS requirements were operative, the entities may have been eligible to apply the transitional administrative approach if they sought to fulfil their lodgment obligation by lodging the consolidated GPFS of Global Parent A.

Which GPFS can be lodged?
The following table summarises which the entities for which GPFS can be lodged:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Options for lodgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Entity B</td>
<td>• Own GPFS (consolidated or on a stand-alone basis in some cases)</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Global Parent A (must be prepared in accordance with Australian Accounting Standards after the first year)</td>
</tr>
<tr>
<td>Subsidiary D</td>
<td>• Own GPFS</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Head Company B</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Global Parent A (must be prepared in accordance with Australian Accounting Standards after the first year)</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Subsidiary C</td>
</tr>
</tbody>
</table>
Scenario 2 – Multiple entry consolidated (MEC) groups

Fact pattern

Global Parent E has two direct subsidiaries in Australia, Head Entity F and Australian Entity J. Head Entity F has a subsidiary, Subsidiary G. Subsidiary G previously held an interest in Subsidiary H, which was disposed during the year.

The Australian entities have formed a multiple entry consolidated (MEC) group for tax purposes, with Head Entity F being the head entity in the group.

All Australian entities are SGEs due to the consolidated income of their parent, Global Parent E. Each company lodges stand-alone special purpose financial statements under Part 2M.3 of the Corporations Act 2001.

Which entities are required to lodge GPFS with the ATO?

The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Head Company F (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, Subsidiary H may potentially trigger an obligation to lodge GPFS if it becomes a taxpayer in its own right and exceeds the annual global income limit (A$1 billion, again in its own right) so that it is a significant global entity. If Subsidiary H immediately joins another MEC group or a tax-consolidated group (and is not the head entity of that group), then it will not be a taxpayer and therefore cannot be captured by the GPFS requirements.

What basis of accounting is used to prepare the GPFS?

Because Head Entity F and Subsidiary H (if relevant) are incorporated under the Corporations Act 2001, and have a reporting obligation under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

However, in the first year the GPFS requirements were operative, the entities may have been eligible to apply the transitional administrative approach if they sought to fulfil their lodgment obligation by lodging the consolidated GPFS of Global Parent E.

Which GPFS can be lodged?

The following table summarises which the entities for which GPFS can be lodged:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Options for lodgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Entity F</td>
<td>• Own GPFS (consolidated or on a stand-alone basis in some cases)</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Global Parent E (must be prepared in accordance with Australian Accounting Standards after the first year)</td>
</tr>
<tr>
<td>Subsidiary H</td>
<td>• Depends upon whether it meets the definition of a significant global entity (in its own right or as part of another group) and is a corporate tax entity</td>
</tr>
</tbody>
</table>
Scenario 3 – Permanent establishments

Fact pattern
Global Parent L and its subsidiary, Intermediate Foreign Parent M, are foreign resident entities for Australian tax purposes.

Each entity operates an Australian branch that are permanent establishments for tax purposes and are significant global entities due to the consolidated income of Global Parent L.

Global Parent L is a registered foreign company under the Corporations Act 2001. Intermediate Foreign Parent M is not registered.

There is no requirement for the preparation of GPFS for Global Parent L and accordingly, the entity prepares and lodges a balance sheet, profit or loss statement and cash flow statement with ASIC under subsections 601CK(5), (5A) and (6) of the Corporations Act 2001. Intermediate Foreign Parent M does not lodge any financial information with ASIC.

Which entities are required to lodge GPFS with the ATO?
The GPFS requirements are extended by section 3CA(1)(b)(ii) to include “a foreign resident who operates an Australian permanent establishment”. Accordingly, because the relevant income thresholds are met (i.e. Global Parent L and Intermediate Foreign Parent M are significant global entities), both entities are required to prepare and lodge GPFS with the ATO.

The ATO’s guidance takes the view that the foreign taxpayer is the relevant “entity” for purposes of the GPFS requirements, and accordingly the GPFS cannot be prepared for Australian Branch P or Australian Branch Q, i.e. it is not appropriate to prepare stand-alone branch financial statements.

What basis of accounting is used to prepare the GPFS?
Global Parent L is a registered foreign company and has a reporting obligation under section 601CK of the Corporations Act 2001. Because it does not have any requirement to prepare financial reports in its home jurisdiction, subsections (5), (5A) and (6) requires each financial statement to be prepared “containing the particulars and including the documents that the company would have been required to prepare if the company were a public company registered under this Act”. This means that those financial statements are prepared in accordance with Australian Accounting Standards (as a public company would be required to prepare the financial statements in accordance with those standards). Accordingly, in accordance with the ATO guidance, any GPFS lodged for Global Parent L must be prepared in accordance with Australian Accounting Standards.

Intermediate Foreign Parent M does not have a reporting obligation under the Corporations Act 2001, and accordingly it may prepare its financial statements in accordance with “commercially accepted principles relating to accounting”, which the ATO guidance refers to as “commercially accepted accounting principles” (CAAP).

Which GPFS can be lodged?
The following table summarises which the entities for which GPFS can be lodged:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Options for lodgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Branch P</td>
<td>• GPFS of Global Parent L (must be in accordance with Australian Accounting Standards)</td>
</tr>
</tbody>
</table>
| Australian Branch Q     | • GPFS of Intermediate Foreign Parent M (prepared in accordance with commercially accepted accounting principles (CAAP))  
                          | • Consolidated GPFS of Global Parent L (prepared in accordance with commercially accepted accounting principles (CAAP)) |

23 See section A.2.3 for more information about the proposed legislative changes in these circumstances, which would have the effect on clarifying these entities are captured by the requirements.
Scenario 4 – Australian grandfathered groups

**Fact pattern**
Australian Parent R is a grandfathered exempt proprietary company which prepares, but does not lodge, financial reports under the Corporations Act 2001. Australian Parent R is also the head entity in a tax-consolidated group.

Subsidiary S has been owned by Australian Parent R and is also a grandfathered exempt proprietary company.

Subsidiary T was acquired by Subsidiary S and was a taxpayer prior to being purchased. The entity is a small proprietary company in its own right and accordingly, does not lodge financial reports under the Corporations Act 2001.

Australian Parent R is a significant global entity due to the consolidated income of the group (even if all that income is generated in Australia).

**Which entities are required to lodge GPFS with the ATO?**

The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Australian Parent R (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, because Subsidiary T was a taxpayer prior to being acquired, the ATO guidance explains that it is also required to lodge GPFS.

**What basis of accounting is used to prepare the GPFS?**

Because Australian Parent R is incorporated under the Corporations Act 2001, and is required to prepare, but not lodge, a financial report under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

Although Subsidiary T does not have a reporting obligation under the Corporations Act 2001, because it is incorporated under that Act, any GPFS it lodges should also be in accordance with Australian Accounting Standards.

**Which GPFS can be lodged?**

The following table summarises which the entities for which GPFS can be lodged:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Options for lodgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Parent R</td>
<td>• Own GPFS (consolidated or on a stand-alone basis in some cases)</td>
</tr>
<tr>
<td>Subsidiary T</td>
<td>• Own GPFS</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Australian Parent R</td>
</tr>
<tr>
<td></td>
<td>• Consolidated GPFS of Subsidiary S</td>
</tr>
</tbody>
</table>
Scenario 5 – Joint arrangements

**Fact pattern**

Two foreign entities, Investor U and Investor V, form a joint arrangement in Australia, Australian Operation W.

The investors have joint control over Australian Operation W, i.e. it is accounted for as a joint venture or joint operation under AASB 11 Joint Arrangements, rather than being consolidated by any entity under AASB 10 Consolidated Financial Statements (or equivalent accounting requirements where Australian Accounting Standards do not apply to Investor U and Investor V).

Australian Operation W is a resident taxpayer, is a company incorporated under the Corporations Act 2001, and lodges special purpose financial statements with ASIC.

Both investors would be significant global entities in their own right but do not have permanent establishments in Australia.

**Which entities are required to lodge GPFS with the ATO?**

Australian Operation W is the relevant corporate tax entity for which the assessment of whether it is a significant global entity. In making this assessment, Australian Operation W would not consider the annual global income of Investor U and Investor V. This is because neither of those entities control Australian Operation W.

Accordingly, the only time that Australian Operation W would be required to lodge GPFS with the ATO if it is a significant global entity in its own right. In making this assessment, the annual global income of Australian Operation W would be determined, including of any subsidiaries of Australian Operation W.

**What basis of accounting is used to prepare the GPFS?**

In the event Australian Operation W is a significant global entity in its own right, it must prepare GPFS for itself. It cannot lodge GPFS of Investor U or Investor V as those GPFS (if prepared) do not consolidate Australian Operation W.

Because Australian Operation W is required to lodge financial reports under the Corporations Act 2001, it must prepare its GPFS in accordance with Australian Accounting Standards in the event the entity is a significant global entity.

**Which GPFS can be lodged?**

The following table summarises which the entities for which GPFS can be lodged:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Options for lodgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian</td>
<td>• Own GPFS (only if required)</td>
</tr>
<tr>
<td>Operation W</td>
<td></td>
</tr>
</tbody>
</table>


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