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Corporate and International Tax Division
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Submission via email: mnetaxtransparency@treasury.gov.au

Treasury Laws Amendment (Measures for Future Bills) Bill 2023: Financial reporting by public companies

As the representatives of over 300,000 professional accountants around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) welcome the opportunity to comment on the Treasury Laws Amendment (Measures for Future Bills) Bill 2023: Financial reporting by public companies (the Bill). We make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ are supportive of efforts to enhance corporate disclosures in financial reports that provide relevant and helpful information to investors and other relevant stakeholders. However, since the introduction of tax transparency requirements that of which these proposals are a part, we have observed a varied understanding of the published information across the media, commentators, policy analysts and academics. The extent to which the data is used and incorporated into individual and institutional decision-making remains unclear.

The Bill proposes amending section 295 of the *Corporations Act 2001* (the Act), to include a new 'consolidated entity statement' along with a 'true and correct' declaration from the directors/officers of a public company. Before making changes to the well-established and well-understood definition of a financial report in section 295 of the Act, we recommend that Treasury works with the Australian Accounting Standards Board (AASB) to develop a practical and informative reporting requirement that achieves the stated policy objectives, without imposing additional compliance burden for minimal benefit.

A potential outcome from such joint effort could include incorporating suitably modified disclosure requirements within Australian Accounting Standards. For example, the disclosures could form part of the notes to the financial statements through amendments to AASB 1054 *Australian Additional Disclosures*.

Specific comments on the Bill

- Implicitly, the Bill does not apply the concept of materiality to the proposed consolidated entity statement, therefore requiring disclosure of a list of all entities included in the consolidated financial statements. For parent companies of very large groups, this information will likely be extensive and include immaterial and dormant entities. The disclosure of irrelevant information can obscure relevant information and undermine the usefulness of other information in the financial report. We recommend that the concept of materiality be applied to the disclosure of information as proposed.
- There could be duplication of information between the proposed disclosures and information that is already included in the financial statements, adding to the volume and complexity of information presented, further undermining the information value of the financial report. For example, paragraph 12 of AASB 12 *Disclosure of Interests in Other Entities* requires the names of subsidiaries, principal place of business etc. for subsidiaries that have non-controlling interests. Consideration should be given to ensuring that there is no duplication of information that is already presented in the financial report.

- In some cases, information contained in the proposed consolidated entity statement may remain unchanged from year to year. Consideration should be given to including such 'standing information' separately from the financial report, with only any changes in the year being disclosed on an annual basis.
- The Bill proposes a 'true and correct' declaration by the directors, which differs from the 'true and fair view' declaration required under section 295(4)(d)(ii) of the Act. We recommend alignment in terminology.
- The Bill is titled 'Multinational Tax Transparency – disclosure of subsidiaries', implying the proposed disclosures in the consolidated entity statement will relate to subsidiaries. However, proposed section 295(3A) of the Act requires a 'statement that includes the following information for each entity that was part of the consolidated entity at the end of the financial year.' It is not clear whether an 'entity that forms part of the consolidated entity' only refers to subsidiaries, or is also expected to include other entities, such as associates and joint ventures that are included in consolidated financial statements. We suggest that this matter is clarified.
- The information contained in the proposed consolidated statement will be subject to audit as it forms part of the financial report. Feedback we have received indicates the auditability of the tax residency status of an entity may need to be supported by tax advice provided by a suitably qualified professional, increasing the cost of preparing such information which investors and/or customers will ultimately bear. Hence, any benefits arising from the disclosures will need to exceed the costs associated with their preparation.
- The definition of a public company in section 9 of the Act includes public companies limited by guarantee. Given that a majority of public companies limited by guarantee are not-for-profit entities and subject to tax exemptions, we do not believe these proposed disclosures should apply to such companies. Accordingly, we recommend that public companies limited by guarantee be explicitly exempted from the proposed disclosure requirements.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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