

Director
International Tax Unit
Corporate and International Tax Division
Treasury
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Australia

Sent by email to MNETaxTransparency@treasury.gov.au

Dear Sir/Madam

Public Country-by-Country Reporting – February 2024 Consultation

Schroders is a global asset management business headquartered in London and a FTSE 100 company. We manage over £724 billion of assets on behalf of institutions and personal investors, offering innovative products and solutions, while investing actively and sustainably in a wide range of asset classes, both public and private, and diverse geographies to help clients meet their financial goals as they change over time. Our products are offered through a variety of intermediary channels including retail banks, financial advisers and investment platforms and our institutional clients include insurance companies, pension schemes, sovereign wealth funds, and charities.

The Schroders group consists of over 500 legal entities and 6,102 employees operating in 38 locations across Europe, the Middle East, Africa, the Americas and the Asia Pacific regions. This international presence assists with understanding our clients' needs and delivering them the right expertise from across the business. Established in 1964, Schroders in Australia is a wholly owned subsidiary. Based in Sydney, the business manages assets for institutional and wholesale clients across Australian equities, fixed income, private assets, multi-asset and global equities.

We support the overarching policy objective of the public country by country reporting proposals (PCbCR). Indeed, we have been publishing tax data on our business for many years. See [Our approach to tax | Schroders global](#). We are therefore grateful for this opportunity to feedback to the Treasury.

The proposed approach within the draft Australian regulations requires the PCbCR to be collated by reference to the Group's consolidated financial statements only (section 3DA(6)(a) of the Exposure Draft and paragraph 1.34 of the Explanatory materials). This "top-down" approach is inconsistent with the approach taken in the EU regime and the approach taken in Action 13, both of which explicitly permit taxpayers to use entity financial statements as a basis for their CbCR reporting (a "bottom-up" approach). See appendix 1 for the abridged EU Directive language.

Along with many other taxpayers internationally, Schroders currently prepare a CBCR report and file this with the relevant tax authorities. In our case, this is with HM Revenue & Customs. We adopt a bottom-up approach, by reference to entity financial statements, as envisaged by the OECD and as permitted UK law.

This bottom-up approach will form the basis of our reporting in the EU from 2025, as permitted by European law.

A requirement to prepare Australian PCbCR on a top-down basis would result in a significant administrative challenge for all taxpayers who adopt a bottom-up approach, as such taxpayers would be required to produce the same reporting under two distinct methodologies. In our case, we would have to implement an entirely new technology solution for a relatively small part of our business that would ultimately give the stakeholders information that is not materially different to the currently used bottom-up approach. Indeed, providing PCbCR information on two distinct bases, as we will potentially be required to do (once in Europe and once in Australia) is as likely to confuse stakeholders as it is to inform.

Schroders propose that the PCbCR should allow for the use of either entity financial statements (i.e. the bottom up approach) or consolidated statements (i.e. the top down approach) when reporting the required information.

The use of entity financial statements would still meet the policy objectives of the PCbCR for the following reasons:

- The financial statements of an entity are almost universally the starting point for corporate income tax calculations. Reconciliations to expected tax rates (as required under section 3DA(3)(j)) will almost certainly be more transparent as a result of this consistent starting point. In contrast, there are often significant differences when preparing consolidation calculations due to late adjustments, consolidation entities, netting of intercompany payments etc.
- Financial statements for the entities in our group are generally audited by our external auditor, EY, each year to a significantly higher level of accuracy than the consolidated financial statements. This is because entity financial statements typically have a greater lead time to prepare and are audited at a much lower level of materiality.
- In many major jurisdictions, entity financial statements in groups the size of Schroders will be publicly available from local registrars of companies, allowing users of the report to reconcile to other sources as required in line with the reasoning in paragraph 1.34 of the Explanatory material. In contrast segmental information provided in a set of consolidated financial statements affords no opportunity for a comparison on this basis.

The above arguments have been accepted by other Governments concerned with ensuring the integrity of both CBCR and PCbCR. We note that most recently the OECD Pillar 2 initiative explicitly provided for a bottom-up methodology in the context of the CbCR safeharbours, in circumstances where the entity financial statements are prepared using either an Acceptable or an Authorised Accounting Policy.

I trust that the above is clear. However, if you would like to discuss this further, please feel free to contact me at the below email address or Will Colgate, at will.colgate@schroders.com.

Yours faithfully,



Tim McCann
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Appendix 1 – Abridged EU Directive

On the source of data

Article 48c 3 of the EU Directive states:

Member States shall permit the information listed in paragraph 2 of this Article to be reported on the basis of the reporting instructions referred to in Section III, Parts B and C, of Annex III to Council Directive 2011/16/EU.

Annex III of Council Directive 2011/16 states:

The reporting MNE shall consistently use the same sources of data from year to year in completing the template. The reporting MNE may choose to use data from its consolidation reporting packages, from separate entity statutory financial statements, regulatory financial statements, or internal management accounts. It is not necessary to reconcile the revenue, profit and tax reporting in the template to the Consolidated Financial Statements. If statutory financial statements are used as the basis for reporting, all amounts shall be translated to the stated functional currency of the reporting MNE at the average exchange rate for the year stated in the 'Additional information' section of the template. Adjustments need not be made, however, for differences in accounting principles applied from tax juris[1]diction to tax jurisdiction.

The OECD have explicitly permitted the use of entity financial statements as a valid basis for preparing a qualifying CBCR report:

Qualified Financial Statements means:

a) the accounts used to prepare the Consolidated Financial Statements of the UPE (to mirror the requirement under Article 3.1.2);

b) separate financial statements of each Constituent Entity provided they are prepared in accordance with either an Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard if the information contained in such statements is maintained based on that accounting standard and it is reliable;

or c) in the case of a Constituent Entity that is not included in an MNE Group's Consolidated Financial Statements on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that Constituent Entity that are used for preparation of the MNE Group's CbC Report.