



New consolidated entity disclosure statement for public companies

What public companies need to know as they prepare their June 2024 annual financial reports.

Background

For annual financial years commencing on or after 1 July 2023, public companies that prepare financial statements under Chapter 2M of the *Corporations Act 2001* are required to make specific disclosures about the subsidiaries that make up the consolidated group. This applies to both listed and unlisted public companies.

The consolidated entity disclosure statement (CEDS) is part of the Federal Government's broader reforms to enhance transparency about how entities structure their subsidiaries and operate in different jurisdictions, including for tax purposes.

The CEDS is a new requirement under s295 of the *Corporations Act 2001*, being the section that deals with the contents of an annual financial report. Accordingly, an annual financial report now comprises the following:

- the financial statements for the year;
- notes to the financial statements;
- the consolidated entity disclosure statement (for public companies); and
- the directors' declaration about the statements and the notes.

Note that proprietary companies, trusts, registered schemes, registrable superannuation entities and public companies that report under the *Australian Charities and Not-for-profits Commission Act 2012* are not affected by these changes.

What information must the CEDS contain?

The extent of the disclosures to be made within the CEDS will depend on the consolidation requirements applicable to the public company in question.

Where a public company is required to prepare consolidated financial statements under accounting standards, the following information about each entity that is part of the consolidated entity must

appear in the CEDS (i.e. the parent entity and each of its subsidiaries, both directly and indirectly owned):

- The entity's name
- Whether the entity is a body corporate, partnership or trust
- Whether the entity was a trustee of a trust within the consolidated entity, a partner in a partnership within the consolidated entity, or a participant in a joint venture within the consolidated entity
- Where the entity was incorporated or formed (if the entity is a body corporate)
- Where the entity is a body corporate with share capital, the percentage of the entity's issued share capital held directly or indirectly, by the public company
- Whether the entity was an Australian resident or a foreign resident within the meaning of the *Income Tax Assessment Act 1997*
- If the entity is a foreign resident, a list of each foreign jurisdiction in which the entity was a resident for the purposes of the law of the foreign jurisdiction.

Where a public company is not required to prepare consolidated financial statements under Australian Accounting Standards, a separate CEDS must still be prepared however it will only contain a statement to this effect.

For example, where a public company does not have any subsidiaries, it will still have to prepare a CEDS but will just include a statement to the effect that it has no subsidiaries and is therefore not required to prepare consolidated financial statements.

Another example is an investment entity that does not prepare consolidated financial statements due to the investment entity exemption in AASB 10 *Consolidated Financial Statements*.

Such an investment entity will still have to prepare a CEDS but will not need to include the detailed disclosures above for the subsidiaries that have not been consolidated. A statement explaining this will be included in the CEDS.

Refer to Appendix A for example disclosure.

What is the impact on the directors' declaration?

The amendments result in an extension of the directors' declaration currently required by the *Corporations Act 2001*.

The directors' declaration is required to include a statement about whether, in the directors' opinion, the consolidated entity disclosure statement is 'true and correct' (as opposed to 'true and fair' as is used when certifying the financial statements and related notes are not materially misstated).

'True and correct' is not defined in the legislation. Being tax terminology, and considering the intention of the CEDS being a tax transparency measure that has been introduced into the *Corporations Act 2001*, the words take on their ordinary meaning of 'complete and accurate'. This is different to the 'true and fair' concept that is used when preparing financial statements under accounting standards. Materiality does not apply when preparing the CEDS, and all subsidiaries that form part of the consolidated group, even if dormant or immaterial, must be included in the CEDS.

What is the impact on the CEO and CFO's declaration to directors for listed companies?

CEOs and CFOs of listed public companies will be required to make the same 'true and correct' declaration regarding the CEDS in their declaration to the directors required by s295A of the *Corporations Act 2001*.

Where should the CEDS be located?

The CEDS must be presented as a separate statement within the annual financial report, as explicitly stated by ASIC in [Information Sheet 284](#). We suggest the CEDS be presented after the notes, before the audit report.

Is a CEDS required in interim reports?

No, public companies are only required to prepare a CEDS as part of their annual financial reports.

Must comparative information be provided in the CEDS?

No, comparative information is not required to be disclosed in the CEDS. The required information provided must relate to those subsidiaries that form part of the group as at reporting date.

How is a subsidiary's tax residency determined?

Tax residency is determined under the domestic rules of a country. This may involve complex assessments and entities may have to seek expert tax advice in this regard.

Where significant judgement is involved in determining the tax residency of certain subsidiaries, an explanation of the basis on which this information has been determined should be included within the CEDS.

Generally, trusts and partnerships are taxed on a flow-through basis so tax residency tests do not apply to these entities. Additional information on the tax status of trusts and partnerships can be provided where relevant.

How does the CEDS impact the audit?

Since the CEDS forms part of the annual financial report, it will be subject to audit. Accordingly, the scope of the audit engagement will be impacted for affected companies.

Appendix A

Illustrative example of a consolidated entity disclosure statement where the reporting entity is required to prepare consolidated financial statements

Example Limited Consolidated entity disclosure statement as at 30 June 2024

Basis of preparation ¹

This consolidated entity disclosure statement has been prepared in accordance with the s295(3A)(a) of the *Corporations Act 2001* and includes the required information for Example Limited and the entities it controls in accordance with AASB 10 *Consolidated Financial Statements*.

Tax residency

S295(3A)(vi) of the *Corporations Act 2001* defines tax residency as having the meaning in the *Income Tax Assessment Act 1997*. The determination of tax residency may involve judgement as there are different interpretations that could be adopted and which could give rise to different conclusions regarding residency.

In determining tax residency, the consolidated entity has applied the following interpretations:

Australian tax residency

Current legislation and judicial precedent has been applied, including having regard to the Tax Commissioner's public guidance.

Foreign tax residency

Where appropriate, independent tax advisers have been engaged to assist in the determination of tax residency to ensure applicable foreign tax legislation has been complied with.

Trusts and partnerships

Australian tax law generally does not contain residency tests for trusts and partnerships and these entities are typically taxed on a flow-through basis. Additional disclosures regarding the tax status of trusts and partnerships have been included where relevant.

Name of entity	Entity type	Trustee, partner, or participant in joint venture	Country of incorporation	% of share capital	Australian or foreign tax resident	Foreign jurisdiction of foreign residents
Example Limited	Body Corporate	n/a	Australia	n/a	Australian	n/a
Subsidiary A Pty Ltd	Body Corporate	n/a	Australia	90%	Australian	n/a
Subsidiary B Pty Ltd	Body Corporate	Trustee	Australia	100%	Australian	n/a
Subsidiary C Pty Ltd	Body Corporate	Participant in JV	Australia	80%	Australian	n/a
X Joint Venture	Body Corporate	n/a	Australia	95%	Australian	n/a
Subsidiary D Ltd	Body Corporate	n/a	United Kingdom	100%	Foreign	United Kingdom
Subsidiary E International Ltd	Body Corporate	n/a	New Zealand	75%	Foreign	New Zealand

¹ A basis of preparation section is not required under the legislation however this is recommended as it is considered helpful in providing context for users and also explaining any judgements made in preparing the statement. This can be tailored according to the entity's circumstances.

Illustrative example of a consolidated entity disclosure statement where the reporting entity does not have any subsidiaries

Example Limited Consolidated entity disclosure statement as at 30 June 2024

Example Limited does not have any controlled entities and therefore s295(3A)(a) of the *Corporations Act 2001* does not apply to the company as the company is not required to prepare consolidated financial statements under Australian Accounting Standards.

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