

Country by country reporting

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Yale, December 2010

CBC: a new way of looking at the MNC

- CBC is a new way of looking at the MNC
- It is in essence a demand for a profit and loss account and limited balance sheet for each country in which the MNC trades
- But it's also something much more than that
- This is an accounting system that roots the corporation in the countries that host it – and not somewhere floating above them
- And this is accounting that says the MNC is an entity in its own right with responsibilities all of its own – it's not just an agent for its owners

What are the responsibilities of the MNC?

- To meet need, and so make profit
- To do so sustainably or we wouldn't invest in it
- To do no harm
- To settle its obligations
- To be accountable for doing so
- To be honest in that accounting

This means the MNC is accountable to....

- The equity investor group (shareholders);
- The loan creditor group (banks and bondholders);
- The analyst-adviser group who advise the above groups;
- Business partners;
- Consumers;
- Employees;
- The surrounding community;
- Civil society organizations; and
- Governments and their institutions.

The truth is

- These needs are universal
- And local
- And if they aren't met then the corporation is going to fail in some way
- And that failure is going to rebound on shareholders
- Through business failure
- Loss of reputation
- Legal claim
- Or in a nutshell,
- A loss of future earnings

This isn't the way most investors see business now

- There are massive conflicts at the heart of this issue
- The agency issue – is there such a thing as a corporation at all?
- If so, how does it really make profit?
- And is that ever its sole objective?
- Or is profit a simple epiphenomenon of doing the right thing, and doing it well?
- And if that's true, why aren't we reporting on what the right thing is, where it is, and how it's being done well?

Translated this means

- Investors need to know:
 - That managers are allocating the resources entrusted to them appropriately;
 - That the appropriate use they make of them is sustainable
 - That risk is acceptable;
 - Others aren't going to prejudice shareholder's claim to the resulting profits now or in the future

And that means

- Asset allocation has to be identified
 - By business sector (SFAS 131)
 - And by country
- Returns have to be identified by sector and country;
- Risk from misallocation has to be known – and in the case of tax that's high
- The risk from employees has to be identified – and that's always local;
- Asset usage has to be sustainable and reported – hence EI disclosure
- Legal compliance as an indicator of governance is critical

Which means CBC is about much more than the EI and tax

- CBC is a new lens on the corporation
- It's a whole new method of viewing it
- Of selecting the right ones in which to invest
- And the ones to avoid
- It's about reducing shareholder risk, and making management accountable
- About the corporation in community – but not as an optional choice – but because communities licence corporations and empower their profits
- And it's about ensuring the right assets get to the right communities to pay the best returns on funds invested

Which means CBC should be

- At the core of investment management
- And there will be real competitive advantage for those who embrace it
- As investors
- And as businesses