



Country-by-Country Reporting

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Summary

- Country-by-country reporting delivers a new lens for observing the multinational corporation, its trade and its relationship with both its shareholders and stakeholders from which they all benefit.

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Country by Country reporting

- Why it happened
- What it is
- How it's developed
- Where it is now
- What the benefits are
- What the chances of it happening are



International Accounting Standards Board

The IASB say:

- The objective of general purpose external financial reporting is providing information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions



International Accounting Standards Board (2)

- Or: it's about providing decision useful information
- BUT: the decision the information relates to is
 - Buy or sell
 - Lend or not
- This is a short term financial market based decision to engage or not



That's one view

- The IASB 'fair value' approach is about delivering information about markets
- It replaced the previous 'stewardship' based approach of historic cost accounting – aimed at supplying information to the shareholder
- Neither supplies information to the stakeholder – a new approach is needed



1975 - The Corporate Report

- Published by the UK Accounting Standards Steering Committee
- Said accounts should assist appraisal of:
 - **The performance of the entity;**
 - *Its effectiveness in achieving stated objectives*
 - **Management performance**
 - **The company's directors;**
 - **The economic stability of the entity;**
 - **The liquidity of the entity;**
 - *The capacity to reallocate resources for economic and social purposes*
 - **Estimating the future prospects of the entity;**



1975 - The Corporate Report (Cont.)

- *Assessing the performance of individual companies within a group*
- *Evaluating the economic function and performance of the entity in relation to society and the national interest, and the social costs and benefits attributable to the entity;*
- *The compliance of the entity with taxation regulations, company law, contractual and other legal obligations and requirements (particularly when independently identified);*
- **The entity's business and products;**
- **Comparative performance of the entity;**
- **The value of the user's own or other user's present or prospective interests in or claims on the entity;**
- *Ascertaining the ownership and control of the entity*



We've come a long way since 1975

- But have our accounting standards made the same progress?
- Have they reflected the change in society and its needs in the meantime?
- Is there a need for a new of accounting data?
- Country by country reporting says yes, there is.



The start of Country by Country reporting

- October 2002 "How could we stop transfer pricing abuse?"
- January 2003 'Reporting Turnover and Tax by Location: a proposed International Accounting Standard'
- Published by Association for Accountancy and Business Affairs



What Country by Country reporting is

- An MNC would report:
 - 1. In which countries it operates;
 - 2. What it is called in that location;
 - 3. What its financial performance is in every country in which it operates including:
 - Its sales, both third party and intra-group
 - Purchases, split in the same way;
 - Labour costs and employee numbers;
 - Financing costs split third party and intra-group
 - Its pre-tax profit;



What Country by Country reporting is (2)

- 4. How much it pays in tax and other ways to the government of the country in which it is operating as a consequence.
- 5. Some limited balance sheet and cash flow data including:
 - Fixed asset data
 - Tax and other liabilities to government
 - Funding sources
 - Tax and other payments to government
 - Dividends paid



Why by country?

- A country is a jurisdiction that can set taxes without consent of a higher authority
- Every country is material to the people that live their
 - As a result every country is included
 - Nothing happens nowhere: the country reports add up to the whole
- In this model reporting takes place on the basis of where the activity is i.e. a Cayman company trading in Angola is reported in Angola
- The report is consolidated by country
- The entities that contribute are named



Why intra-group sales and purchases

- This was designed to tackle transfer pricing abuse
- That happens on intra-group transactions
- The reality is no one knows the scale of intra-group sales
- Maybe 60% of world trade (OECD)
- Can accounts be true and fair if 60% of world trade is not reported?



Why tax and other payments?

- We believe that tax paid is the strongest evidence of CSR there is
- But tax is not the only payment to government
- In the EI in particular royalties, rents, profit oil and other payments are key
- The provision is strongly influenced by thinking about developing countries



How it developed (1)

- Publish What You Pay adopted the proposal in 2005 – then called "Extracting Transparency" and aimed at IFRS 6
- When IFRS 6 fell off the agenda we targeted IAS 14 revision - now IFRS 8
 - Combination of a write in campaign
 - and use of the FT
 - forced the IASB to listen.



How it developed (Cont.)

- We lost on IFRS 8, but the EU has asked for it for the EI
- As a result we're now back on IFRS 6
 - IASB working group exists to explore it in this context
 - Meets next in September 2008
- This keeps PWYP happy
- It does not keep TJN happy



Why TJN wants the broad based scheme (1)

- CSR matters and is impossible without knowing host community
- Accountability matters
- Trade matters
- People matter
- Tax matters



Why TJN wants the broad based scheme (2)

- Corruption matters
- Development matters
- Governance matters
- Where you are matters
- Transparency matters



Where we are now

- Part of the PWYP campaign
- The IASB is listening
- The EU is holding them to account
- Being taken up by development agencies
 - Christian Aid, Action Aid, War on Want, Oxfam
 - Many in France
 - And Germany
- And is being heard in UN tax campaigns
- Some tax authorities are noticing



Will it happen?

- Yes, if the EU keeps up the pressure on the IASB
- Yes if the IMF and WB, who are showing some interest take it forward
- Yes, if the UN and Leading Group of nations adopt it
- Yes, if NGOs adopt it
- Yes, if the tax authorities who are showing interest like the benefits it can provide



Why won't it happen?

- Because we believe it won't
- Because we think that the investor view of business is the only one that matters
- Because we aren't willing to argue for a new world view
- Because we think trade, people, tax, CSR, corruption, accountability, governance and transparency don't matter
- Because we believe business when it says it will cost too much or it can't be done – neither of which are true
- Because we believe business when it says being accountable is a competitive disadvantage
- Because we think it's only about transfer pricing



Summary

- Country-by-country reporting delivers a new lens for observing the multinational corporation, its trade and its relationship with both its shareholders and stakeholders from which they all benefit.
- We need that lens
- Please support it – for the sake of every NGO campaign you have ever supported