

## Why is Country-by-Country financial reporting by Multinational Companies so important?

**Richard Murphy FCA** 

## What we want

The Publish What You Pay<sup>i</sup> (PWYP) coalition and the Tax Justice Network<sup>ii</sup> (TJN) are leading the campaign for Country-by-Country (CbC) reporting by multinational corporations (MNCs). The opportunity to lobby on this issue has increased because the European Commission is currently undertaking a review of a proposed accounting standard that could be amended to make such reporting mandatory for all European based companies.

The reporting PWYP and TJN are calling for would require every MNC to declare:

- 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, identifying both third party and intragroup trade as well as labour related information;
- 4. How much tax (and other benefits) it pays to government locally as a consequence.

Our proposal requires this information for all territories - without exception - in which a multinational corporation operates. Anything less will not do. This does not require each country to agree as the requirement would be imposed by an International Financial Reporting Standard.

## Why we want it

We support country-by-country reporting for the following reasons:

- Corporate social responsibility (CSR) matters. CSR is about the relationship between a company and its host community. But this does require that the host community knows the companies there. CbC reporting provides that information.
- Accountability matters. A company cannot be accountable unless it can be identified. This means that the names an MNC uses locally must be on public record. Too often they are not.
   CbC reporting names local subsidiaries.
- 3. Trade matters. 60% of world trade is intra-group trade. In other words it takes place across national boundaries but between companies under common ownership or control. Existing MNC accounts completely eliminate all of this trade from public view. CbC shows it all. This is vital if relationships are trade to be understood, and made fair.
- People matter. MNC accounts include statements on the number of employees a company has and their aggregate remuneration. CbC would require this statement for every country in which an MNC operates.

Please reply to:

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This would provide invaluable information on labour conditions, worldwide.

- 5. Tax matters. MNCs have more opportunity than any other group to plan their tax affairs. They can seek to shift their profits from state to state to find the lowest overall bill. CbC discloses the profits that companies record in each country in which they operate and the taxes that they pay on them. This means they can be held accountable for what they do and don't pay. It's estimated that if this problem were tackled enough tax could be collected for the Millennium to pay Development Goals.
- 6. Corruption matters. The Extractive Industries are dominated by MNCs. The Extractive Industries Transparency Initiative seeks to hold those companies to account for the tax payments they make, and the that receive those governments payments to account for what they do with them. Many MNCs resist disclosure of information on what they pay because of competitive pressure, contractual obligations and local political opposition. CbC would overcome these objections, significantly enhancing transparency in this sector, and helping cut corruption.
- 7. Development The matters. developing countries of the world are poor. Aid helps alleviate this problem but creates a dependency, harms the democratic accountability of developing country governments because they aren't accountable to their electorates for what they spend and aid directly contributes to corruption. Local declaration of economic activity by MNCs with the resulting accountability for taxes paid could break this cycle and help

create fully independent, accountable governments capable of raising their own taxation revenues.

- 8. Governance matters. Many of the major corporate scandals of recent times have involved extensive use of offshore subsidiary companies. These are becomingly increasingly common throughout the MNC world, but it is recognised that the problem of creates managing them severe governance issues for MNCs. This increased results in risk for shareholders and others who need to understand the risk inherent in an MNC's activity.
- 9. Where you are matters. Some countries are politically unstable. If a company trades there shareholders should know. Some are politically unacceptable. If an MNC trades there civil society wants to know. Some countries are subject to sanction. Trading there is illegal. Where you are matters. CbC holds a company to account for where it is.
- 10. Transparency matters. In many countries a corporation does not have to put its accounts on pubic record. That means that what an MNC does in that country is not a matter of public record. That matters. What MNCs do has enormous implication for the wellbeing of the world. CbC overcomes this problem. It puts all MNC activity 'on the record'.

## What you can do now.

If you think CbC matters now is the time to tell the European Commission. Make your opinion heard by mailing your comment to <u>Charlie.Mc-</u> <u>Creevy@ec.europa.eu</u>

http://www.publishwhatyoupay.org/

http://www.taxjustice.net/cms/front\_conten
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