Funding the Future

Next steps for country-by-country reporting

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Thursday January 28 was an important day in the seven year history of country-by-country reporting. The OECD is to establish a task force of representatives from governments, business and civil society to issue guidelines on the publication of profits and taxation on a country-by-country basis, hopefully by the end of this year.

I am, of course, pleased by the unambiguous support demonstrated by the OECD,and for the personal support for this issue from UK treasury minister Stephen Timms. Each was also noticeably direct in the language they used when addressing the International Accounting Standards Board's prevarication on this issue: they were quite clear that they expected the IASB to deliver. In this sense the OECD project can be seen as a step on the way to clearing obstacles to full, audited, implementation of country-by-country reporting. I have been left in little doubt that this is the desire of the OECD.

I am equally well aware that business will do its very best to resist this change. I and my colleagues working on this issue have seen ample evidence of that over the last few days: the oil company that simply refused to engage in debate and seems intent on provocation; the mineral company that flatly denies information on taxes on an accruals basis will ever be made available on a country-by-country basis; the professional institute that warns that people should be wary of asking for too much information from audited accounts, suggesting unregulated, inconsistent and unaudited data should suit the needs of all bar investors (an attitude I find quite extraordinary — and wholly antipathetic towards the public interest they are supposed by their charter to promote). And as I noted in a blog, there's also the very real issue of ring fencing — a process of business seeking to carve out so many loopholes in disclosure that what is left is meaningless. Then there remains the IASB incorrectly and without any foundation at all claiming that the public interest is akin to that of investors — a claim so ridiculous it is inconceivable that it can be sustained for much longer. These are obstacles to be overcome.

There are however good reasons for thinking this possible. First, this proposal started in civil society and the competence to sustain it through to delivery exists in civil society. We know the games of those opposing this proposal, and we know that what we're asking for is intellectually coherent.

Second, as several major companies admitted in Paris (one of them a bank) the data needed for country-by-country reporting can be collected — something we’ve always said. In other words, there are no insurmountable technical obstacles to delivering country-by-country reporting, just a lack of willing to do so.

Thirdly, the business centred perception of cost benefit and materiality in financial reporting no longer washes with regulators, tax agencies and civil society. The very real possibility that business will again dump its external costs on the rest of us means that those external risks are now being factored into the cost benefit equation when assessing the need for this form of disclosure - and that massively shifts the argument in favour of country-by-country reporting.

Fourth, the arguments business is putting forward when opposing country-by-country reporting appear hollow, intellectually vapid and redolent of another era. I presume they also now know that: nothing else can explain the obvious frustration they are feeling. Surely it would be wiser for them to recognise the changed world and themselves move on?

Finally, this is not a move in isolation. In the last week we’ve also seen regulators demand changes in accounting on loss provisioning where International Accounting Standards Board approved reporting has also failed, badly. The perception that the model of accounting based solely on a highly artificial model of supposed investor need is threadbare is growing fast and the ability of the accounting profession to resist change is weakening inversely.

All that said, I am under no illusion that the OECD guidelines will be the end of the development story for country-by-country reporting: they are not. The end goal remains a full International Financial Reporting Standards to ensure such reports are prepared by all multinational corporations. The guidelines are, however, an incredibly useful step on the way, and there will be hurdles on the way to developing them. But, that this is happening is not just enormously symbolic (although it is that too). It is clear indication that the major governments of the world want country-by-country reporting because, as was admitted by tax authorities present, this will help them. And as was also admitted, country-by-country reporting also addresses one of the massive capacity issues and information needs for any developing country seeking to tackle transfer pricing abuse. And, I would argue, it is pro-competition and the creation of a genuine level playing field — issues with which the OECD is very familiar.

Country-by-country reporting has come a long way. I’ve always been sure it would happen. I am more confident of that now. Some in business are going to have to accept they live in a new paradigm. My metaphor for them was a simple one: film will change forever now we have had the first genuine 3D film. The same is true for accounts. Once the new perspective of country-by-country reporting can supply is appreciated the world will no longer be happy with the monochrome, single perspective of the current consolidated group accounts that are rightly considered irrelevant by most users because that is what they are designed to be.

That new paradigm is developing very fast — and that’s good news.