The EU consultation on country-by-country reporting: fi...

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"In November 2010, the European Commission (EC) opened a public consultation to “seek stakeholders’ views on financial reporting on a country-by-country basis by Multinational Companies (MNCs).” Country-by-country reporting standards would require that MNCs provide information on the profits earned and taxes paid in each of the countries where they operate. Eurodad and other civil society organisations believe that such reporting standards would enhance financial transparency and would provide crucial information needed by developing countries to enhance collection of taxes on the profits made by companies in their countries.

While several NGOs, including Eurodad, contributed to the public consultation with a strong plea for the EC to put in place country-by-country reporting standards for all sectors, more than half of the contributions to the consultation were from private sector companies, the vast majority of which wholeheartedly oppose the enhancement of financial transparency.

Why are reporting standards by MNCs important for poor countries?

Currently international accounting standards do not require listed companies that are active in the European Union to disclose financial information on a country-by-country basis in their consolidated accounts. Eurodad and other NGOs from the North and the South campaigning on tax justice believe that this lack of financial transparency contributes to the ongoing bleeding of financial resources from developing countries through tax evasion and avoidance. According to Global Financial Integrity, tax related illicit flows amount to over USD 800 billion a year.

This is why over the years CSOs have strongly campaigned to set up country-by-country reporting standards. These calls have been heard by some decision-makers, including from the European Parliament, which are now calling for measures to improve the corporate governance of multinationals by imposing additional transparency requirements on their activities in third countries.

What do MNCs think about improved financial transparency?
The EC consultation received 76 responses, all of which are available online on the Commission website. Out of these, only 14 contributions were from civil society organisations, while the majority came from companies and business associations, such as Businesseurope, International Association of Oil and Gas Producers (OGP Europe) European Banking Federation and Confederation of British Industry, among others.

Most of the private sector contributions were strongly calling against binding rules on country-by-country reporting at the EU level. They argue that:

* Mandatory country-by-country disclosure may harm investors by revealing sensitive information and would place EU companies in a competitive disadvantage vis-?â€ -vis non-EU companies.

* Country-by-country reporting does not benefit investors and it has never been requested by them and/or other capital market participants.

* Country-by-country is outside the scope of general purpose financial statements and belongs to the Corporate Social Responsibility area.

* Country-by-country reporting increases the entities' burdensome reporting and administrative requirements.

Clearly, these arguments show that companies are overly preoccupied by the interests of investors at the expense of the general public interest of the citizens in poor countries and the ability of their governments to mobilise domestic resources for development. However, even when narrowly assessing investor's interests, as the fiasco of the global financial crisis shows, the case can be made that financial transparency could increase the investor's ability to access information and better assess risks. Also, it could respond to a growing constituency of investors which may also take into account ethical considerations when making investment decisions.
A few companies show a small degree of openness, while the vast majority is overtly against
The majority of submissions by private companies or business associations were very negative on the usefulness of having binding rules at EU level on financial reporting on a country-by-country basis. Strikingly, they also emphasised that they do not think that increased transparency would improve tax governance and accountability at either the global or the national level.

Some companies, such as Repsol and Statoil, where not overly against setting up EU rules on the disclosure of financial information on a country-by-country basis, and stated that it would "be useful in order to improve domestic accountability and governance in natural resource-rich third countries."

Even a few investors support mandatory country-by-country reporting for all sectors. Calvert Asset Management Company, Domini Social Investments LLC,

Harrington Investments, Inc., and Interfaith Center on Corporate Responsibility, among others, argued that "this would enhance the information available to us [investors] to assess risk arising within the corporations in which we invest and would assist us [investors] in making decisions on the allocation of the capital under our management to corporations operating in the world's financial markets."

According to them, country-by-country reporting "would provide investors with information on the following issues, currently unavailable, but which would impact the decision making processes if available:

* **where corporations trade;**
* **the relevant importance of different jurisdictional markets;**
* **where they do and do not pay their taxes;**
* **where they earn their profits;**
* **how they structure their businesses;**
* **how they structure their internal supply chains;**
* **where they allocate their resources;**
* **where they expose investors to geo-political risk."**

Others, such as the KLP-group — one of Norway's largest life insurance companies and pension fund —, also advocate for standardised and predefined formats to allow for comparing information across companies. They argue that "if data cannot be used to compare one company to another, within countries, industries or regions, the data is more or less useless. This is very often the challenge with corporate responsibility (CR) data. CR data is subject to many deficiencies because it is voluntary and not standardized."

What measures would make the grade?

Eurodad and other CSOs believe that legally binding measures at the EU level on country-by-country reporting are crucial to tackling illicit capital flight from developing countries and are a necessary first step to putting an end to tax evasion and avoidance from poor countries. Our **submission highlights that country-by-country reporting should include the following points:**

* **have a universal scope and apply to ALL countries in which the company operates.**
* **be applied to all extractive companies and to large corporations with substantial economic impacts, without imposing additional reporting burdens on small companies.**
* **create a level playing field for European companies, and help make**

financial transparency an international norm.

Whereas public consultations simply allow the EC to gauge the views of different stakeholders, Eurodad is concerned that the overwhelming number of private sector submissions outnumbers and silences the CSO calls for greater transparency. The EC is committed to releasing a Communication on this issue by September 2011; and we hope that it will reflect the voices and concerns of the EU citizens that call for the highest standards of financial transparency and financial honesty."