Funding the Future

What is country-by-country reporting?

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I guess I should explain what country-by-country reporting as I'm writing about it today.

It's explained in more depth here and its benefits are explained here. For those wanting more it's explained most comprehensively here.

What country-by-country reporting demands is, however, easily summarised. It is that each multinational corporations discloses in its annual financial statements:

1. The name of each country in which it operates;
2. The names of all its companies trading in each country in which it operates;
3. What its financial performance is in every country in which it operates, without exception, including:
   - It sales, both third party and with other group companies;
   - Purchases, split between third parties and intra-group transactions;
   - Labour costs and employee numbers;
   - Financing costs split between those paid to third parties and to other group members;
   - Its pre-tax profit;
4. The tax charge included in its accounts for the country in question split as noted in more detail below;
5. Details of the cost and net book value of its physical fixed assets located in each country;
6. Details of its gross and net assets in total for each country in which operates.

Tax information would need to be analysed by country in more depth requiring disclosure of the following for each country in which the corporation operates:

1. The tax charge for the year split between current and deferred tax;
2. The actual tax payments made to the government of the country in the period;
3. The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period;
4. Deferred taxation liabilities for the country at the start and close of each accounting period.

If sales on an arising and destination basis from any jurisdiction were more than 10% different then both figures would also need to be disclosed to deal with issues such as the billing of worldwide sales from tax havens like Ireland that would otherwise completely distort understanding of a multinational corporation's activities.

In addition, if the company operated within the extractive industries we would also expect to see a full breakdown of all those benefits paid to the government of each country in which a multinational corporation operates broken down between these categories of reporting required in the Extractive Industries Transparency Initiative.

The proposal requires this information be disclosed for all jurisdictions - without exception - in which a multinational corporation operates. Anything less will not do or transactions might be lost to view. Importantly, this does not require each country to agree to this Country-by-country reporting disclosure since it is suggested that the requirement should be imposed by an International Financial Reporting Standard.

Now let's be clear about this:

a) Multinational corporations have this data. If they don't then they are failing to keep proper books and records. Preparing this data should therefore have minimal cost;

b) This data can be audited, but as has become apparent, much of it is not audited now under the 80 / 20 rule - maybe 80% of the locations where a multinational corporations operates contribute only 20% of activity so auditors ignore them - but that's where for government and stakeholders the risk is usually highest;

c) This data can be published at low cost - we only want it on the web.

But if we get it our view of multinational corporations will change forever - and that's precisely why they don't want to give it. The last thing the senior management of those multinational corporations want is that accountability. And that's where the fault-line on this issue lies. It's all about holding the new elite - those who have captured large companies for personal gain - to account. Which is precisely why it is so important.