Funding the Future

Why you have to support country-by-country reporting no…

Published: January 13, 2026, 10:48 am

I've spoken at the International Tax review [Tax and Transparency Forum] in London this morning on country-by-country reporting. This is, near enough, what I said:

When, almost ten years ago I wrote the first ever version of country-by-country reporting in response to one of the first ever questions John Christensen asked of me I thought the entire audience for the idea would amount to just two people - John and Prof Prem Sikka, who had just introduced us. How wrong I was! It seems a good idea has a life all of its own.

What I did not know then was just how many misunderstandings would arise over country-by-country reporting over the subsequent decade. That's the reason why I want to do three things this morning.

The first is to say what country-by-country reporting is. In the process I'll tell you what it is not, because that's important.

The second is to explain what country-by-country reporting tells us.

Thirdly I'll explain why on the balance of its strengths and omissions you have to support it.

Country-by-country reporting is, and was always intended to be, a full blown and completely new view of the trading of a multinational corporation, ideally required by an International Financial Reporting Standard, but failing that by international regulation.

What that accounting standard would demand is a full consolidated profit and loss account for each and every jurisdiction in which a multinational company trades.

And when I say full I mean 'full', including sales, costs, an analysis of labour costs and head count and full tax notes - including a deferred tax analysis.

And in some ways I mean more than full when it comes to this profit and loss account -

because country-by-country reporting would also require disclosure of all intra-group sales and purchases, all intra-group hedging and derivative trading and the disclosure of all intra-group financing activity too.

Let's be clear about why country-by-country reporting does this. It's based on a series of solid assumptions. The first is that multinational corporations might act globally but they do not float above the global economy. Their actions are all ultimately geographically located. Country-by-country reporting recognises that. It makes globalisation accountable locally.

Second country-by-country reporting recognises that it is impossible to say that existing accounts for multinational corporations can possibly give a true and fair view of business when up to 60% of world trade — the part that takes place on intra-group basis - is totally lost to view in existing financial statements. It is ludicrous that we don't account for that trade in a globalised world.

Third, as John Cridland of the CBI agreed a couple of weeks ago, this standard recognises that tax is the fee paid by a company for its licence to operate in each and every country where it works and in that case it has to be accountable for paying it.

That's why, in essence, we want the data country-by-country reporting supplies.

But I'd add, we'd also want, for full measure, limited cash flow information on tax paid and investing - except in the case of the extractive industries where we'd want everything required to complete the standard Extractive Industries Transparency Initiative pro forma disclosed on a cash basis. For the elimination of doubt — a universal standard for EITI disclosure to host countries is built into country-by-country reporting so that in future consistency in standards and duplication of costs can be eliminated for all engaged with the EITI.

And we'd want some balance sheet data too - which is vital accounting information on the ties between a company and the jurisdiction that hosts it.

Finally - and just in case there's doubt - we'd want a sales analysis on a source and destination basis. We're all familiar with the games MNCs such as Amazon, Apple and others are playing at present as a result of their ability to move where they record their sales. They have to be held accountable for that.

That, as I have already said, is a full accounting system. And from the outset it was always intended as such. Let me repeat what I've already said: country-by-country reporting is meant to provide an alternative view of the trading of a multinational corporation and if we had it now that is exactly what it would do.

The European Parliamentarians who demanded full country-by-country reporting two weeks ago know that. And so do the Council of Europe who demanded it last week. And *let’s eliminate doubt: the country-by-country reporting they demanded is the version I have described.*

So in that context of that increasing parliamentary and political pressure for this reform let me also shatter some myths about country-by-country reporting.

This is not about voluntary disclosure. It has to be mandatory. Nothing less will do.

And that means country-by-country reporting is not about corporate social responsibility - and to say so is a gross misrepresentation of the truth.

Nor is it just about the extractive industries. It just so happens that's the sector where right now it is seen as having first potential use.

Of course the disclosure of information on payments made to governments that lets us hold those governments to account for the use of funds is vital — and, for the record, I suggested country-by-country reporting be used for this purpose. But let’s also be clear, disclosing information on payments without related accounting information that suggests the likely credibility of the sums paid such as turnover, costs, rents and profits — reduces the status of that payment data to mere disclosure information that doesn't even qualify as accounting data as we have no objective way of knowing if it is right. I’ll be blunt on this issue, that’s nothing like good enough and it’s a travesty of justice that we may not got the information we need to really hold governments and companies to account for corruption in this sector.

Having said that — I hope that it’s very clear that important as country-by-country reporting could be as a tool for tackling corruption that is a small part of what it can do. Of course corruption is a massive issue in the extractive industries and other sectors, but we know it nothing like as important as transfer pricing abuse. Of that I am sure.

So let me talk about transfer pricing for a moment. Country-by-country reporting was never intended primarily as a transfer pricing tool either. We all know transfer pricing is too complex to be fixed by data in consolidated accounts.

But we also know that without accounting data there are no comparables to populate transfer pricing databases — and right now my experience tells me that in Africa at least those databases are useless. So CBC would provide the data we need to make arm’s length pricing work outside the OECD — which, I suggest, is meaningfully almost impossible in very many cases right now.

And by revealing intra-group and arm’s length pricing country-by-country reporting would let us tell which data from accounts is meaningful as a basis for comparison for arm’s length pricing purposes. Right now none of us ever know that because that data on intra-group trading is suppressed by International Financial Reporting Standard. Arm’s length pricing literally can’t work on that basis as a result.

In other words, if arm’s length pricing outside the OECD is ever going to work then country-by-country reporting is vital.

And it’s also vital because country-by-country reporting is a risk assessment tool. Look at what it discloses and it’s obvious that it gives the best possible chance of assessing whether accounting profit and economic profit are aligned. If they are then companies have a defence against transfer mispricing allegations. And any sensible revenue authority will not investigate them. That’s a massive win.

And if arm’s length pricing does not work then country-by-country reporting lays the foundation for a Common Consolidated Corporate Tax Base — which, with unitary apportionment, has to be the alternative to arm’s length pricing.

In other words - country-by-country reporting works, and is essential, however and whatever you think the future of transfer pricing and whether you’re a multinational corporations or tax authority. And in the process — despite what I’ve heard some say — the disclosure does undoubtedly mean we will know who pays what tax, where.

And what is also true is that this is an accounting standard we could have, and with ease and at low cost.

As Lord Browne said last week in the FT:

"In my view, the additional cost for big companies, which already spend many millions of dollars on compliance, would be negligible. In some cases it would require changing a few lines of accounting code."

He said something I have always maintained, which is that all the data to prepare country-by-country reporting information has to exist now and the cost of extracting that information from a company's accounting database would be minimal.

How do I know that? Because anyone who says the data does not exist is admitting they do not have the ability to allocate their transactions to a territory for tax purposes - and that means they must be failing to comply with all internationally legally required standards of internal control that as a basic minimum a multinational company must meet. In that case I hope no one tries to use that argument today.

As for the auditing cost - I well remember the reaction of a Scandinavian investor when she first realised that the operations of large parts of a multinational company had not been audited before the accounts were signed off. She was horrified. Her reaction was right: what she realised was that the risk in the reporting of those operations had been transferred to her as a result. I'll tell anyone who raises the audit cost question that every investor I’ve spoken to who has understood this point says that the wholly immaterial audit cost of country-by-country reporting is a risk premium well worth paying.

And let's also remember — investors will be the biggest beneficiaries by far of country-by-country reporting. They will finally have the information they need to know how and where companies use the funds that are entrusted to their care. As such they'll make better decisions on whether to engage with them, or not. That means we'll have more efficient markets. And because tax risk, geographic risk, governance risk and the risk from corruption will be exposed and so be reduced the cost of capital will go down too. Which means the global economy will grow faster.

In that case CBC should be seen as what it actually is - an accounting reporting system that, like all other such systems, is meant to impart meaningful information to users. It just so happens that in this case the range of potential users is vastly wider than usual.

So let me summarise.

If you want to beat corruption you have to believe in country-by-country reporting.

If you want to improve the scope, standard and efficiency of the Extractive Industries Transparency Initiative at lower cost you have to believe in country-by-country reporting.

If you want to make the arm's length pricing system work by creating the data that makes it plausible you have to believe in country-by-country reporting.

If you want tax authorities to more effective in targeting transfer mispricing you have to believe in country-by-country reporting.

If you want to defend yourself against charges of global transfer mispricing you should believe in country-by-country reporting.

If you want tax to be paid in the right place then you have to believe in country-by-country reporting.

If you want to expose the abuse of tax havens at cost to the ordinary people of the world you have to believe in country-by-country reporting.

If you realise — as I do — that tax is the commodity in shortest supply throughout the world right now — and that the tax shortage in question is what is driving us into double dip recession with worse to come — then you have to believe in country-by-country reporting because it will help, without doubt, shift the balance of tax back to those large, but maybe few, companies that are clearly not in this with the rest of us right now.

But perhaps most of all, if you believe in free markets, where data is vital in ensuring that resources are allocated efficiently by investors and the companies in which they invest so that the well-being of the world is maximised by the effective operation of capital markets then you really have no choice but believe in country-by-country *reporting.*

And all that is possible now. You can decide to be with the demand or against the demand. But let’s be clear: recent votes in Europe whilst not binding show the direction of travel. Country-by-country reporting is coming. It’s time to embrace it. Now.