Funding the Future

The rush to country-by-country reporting is on

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Bloomberg reported yesterday that:

The European Union will seek to make large companies disclose the taxes they pay and profits they make on a country-by-country basis as it seeks to crack down on firms evading their obligations.

Michel Barnier, the EU's financial services chief, will seek to put the transparency rules in place "as quickly as possible," Chantal Hughes, his spokeswoman, said in Brussels today. The measures would also cover subsidies that companies receive, she said.

"It's the equivalent of what we already do for banks," Hughes said. "The idea is therefore to expand that to all large companies operating in the European Union."

Barnier's push comes amid international controversy on whether companies like Apple Inc. and Google Inc. are taking excessive advantage of cross-border tax loopholes. EU leaders vowed this week to investigate "aggressive" tax planning, and pledged support for tougher corporate transparency rules.

The EU has already taken some steps toward introducing such country-by-country reporting requirements.

European Parliament lawmakers insisted earlier this year that draft bank capital rules be expanded to include transparency on taxes, profits and subsidies. The EU has also agreed on similar rules for gas, oil and mining companies.

What this refers to and builds on is the new requirement under the Capital Requirement Directive which demands that banks disclose profits made, taxes paid and subsidies received, as well as turnover and number of employees for each country where they operate. This information will be included in the banks' audited annual reports. From 2014, the information will be disclosed to the European Commission (EC). From 2015, the data will be made public, unless the EC finds significant economic disadvantages when carrying out an impact assessment, in which case they can propose a delay.

This is not full country-by-country reporting as I define it. There is no balance sheet and cash flow data. Nor, crucially, is there intra-group data - which will mean that quite a lot of the reporting may look a little meaningless - although that may be to the disadvantage of firms that report in that way I suspect.

But this is, none the less, undoubtedly proper country-by-country reporting even if not absolutely everything I'd wish for.

And because all that is required is a change from requiring this for banks to requiring this for all multinational corporations the measure can go through in days or weeks at most since the legislation for the banks is not yet quite finalised and so can still be amended.

The rush to country-by-country reporting has begun.