

Country-by-Country Reporting

Accounting for globalisation locally



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for the

Tax Justice Network



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Cover photo: Titchwell Marshes, Norfolk, UK by Richard Murphy

Photo note: Financial statements prepared using International Financial Reporting Standard show the big picture view of a multinational corporation; it's a big blue-sky approach and yet foreground detail is vital to understand that perspective, to root it and to interpret it. Country-by-country reporting would provide that foreground detail that is currently missing from financial statements.

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1. Introduction

It is almost a decade since the idea of country-by-country reporting for multinational corporations was first suggested. Country-by-country reporting is in essence a simple idea. All it demands is that multinational corporations publish a profit and loss account and limited balance sheet and cash flow information for almost every jurisdiction in which they trade as part of their annual financial statements. Such a simple request has been the subject of much debate.

Extraordinarily, the history of country-by-country reporting almost exactly matches that of the Tax Justice Network, because the very first versionⁱ of country-by-country reporting was written by me in response to a question John Christensen asked during our first ever conversation in October 2002. That first version was published, with an anticipated audience of just two people in January 2003. The Tax Justice Network was launched in March that year.

We are, we think justifiably, proud that we created what has undoubtedly become the biggest ever civil society demand for accounting reform. What we do, however, recognise is that over the intervening years the demand for country-by-country reporting has become more complicated, in part because it has become so closely associated with calls for greater transparency in the extractive industries. It is also undoubtedly true that some of those who are not in favour of country-by-country reporting have sought to represent it as things that it has never claimed to be. For all these reasons we think it appropriate to publish a new explanation of what country-by-country reporting is, why we think it important, what issues it addresses, why it can do this more effectively than any alternative and why the arguments that opponents make about country-by-country are wrong. The result is the briefing that follows which is the longest, most complete and most technically coherent explanation of country-by-country reporting published to date.

That failure is, then, the appropriate starting point for this introduction to this review of country-by-country reporting. It is our view that all limited companies, and multinational corporations in particular, are granted a licence to operate by each and every country in which they trade. In very many cases there is, quite literally, such a licence because it is commonplace (but not universal) for multinational companies to set up subsidiary companies for their operations in each country in which they work. That ring fences their risk in the country in question, makes it easier to differentiate their tax liabilities between territories and does, of course, grant them limited liability within that jurisdiction.

The privilege of limited liability is an extraordinary thing. Whether granted within a jurisdiction or not the very fact that a multinational corporation can limit its liability, not just within the corporation as a whole, but within each element of it that is wrapped within its

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own, self contained but nonetheless commonly controlled subsidiary is an extraordinary situation that has developed seemingly by accident rather than design. The result of the grant of that privilege by each of the jurisdictions in which a multinational corporation works affords it enormous financial rewards because its cost of capital, not just as an entity as a whole but in each place where it works, is substantially reduced by the availability of limited liability to it and its subsidiary companies. That is because the capital it needs to trade is much lower than would otherwise be required if it were expected to meet all reasonable losses that it might incur, come what may. That reduction in its cost of capital arises because societies around the world explicitly accept the risk that if for any reason a constituent of a multinational corporation ceases to trade then that company and the owners of its capital will not have to make good the loss incurred and that risk will instead be transferred to the state in which it traded and the members of the community who traded with it in that place.

Most of the time this risk is ignored and the cost of the resulting failures is contained within the business, banking and investment communities of each country as a part of the collective risk they take. However, as is very obvious now, that is not always the case. Since 2007 large parts of the world's banking community, almost all of it protected by limited liability, has required massive state bailouts at cost to the communities the world over. It could be argued that this is an exception that requires no change in the perception of risk, but there is no evidence that is the case. First of all, as major losses at UBSⁱⁱ and JPMorganⁱⁱⁱ have proved in 2011 and 2012 respectively, there is no guarantee that catastrophic bank failures need be one off events. Second, banks in several European countries are still being bailed out^{iv} in 2012 whilst at the time of writing in May 2012 the risk of the failure of the Greek economy shows that particular country economic risks - even when the country in question is relatively small - can present massive problems for both companies and the world economy as a whole.

The current system of accounting for multinational corporations recognises none of these risks. Although this could not have been anticipated when country-by-country accounting was first created, because the scale of economic crisis to which globalisation could expose the world was not appreciated by almost anyone at that time, what is now very clear is that country-by-country reporting does three things that address these issues.

Firstly, it recognises that there is a licence to operate that has to be paid for. That payment is due in the form of tax. As John Cridland, Director General of the UK's largest business lobbying group, the Confederation of British Industry, said^v in April 2012:

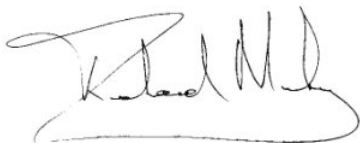
For all that the CBI favours the competitiveness gains of lower taxation, companies completely accept that paying taxes is part of doing business. It gives them their broader licence to operate, and enables them to play a full role in society – and be recognised for doing so.

We agree. But, secondly, we think that the responsibility goes further than that. We think that the duty is not only to pay tax, but to account for that payment, and that the accounting is in fact a part of the obligation due to society in exchange for limited liability because it puts on record the risk that a community is exposing itself to by hosting the activities of a multinational corporation. This is almost impossible to determine with regard to the activities of a multinational corporation without country-by-country reporting, although it is entirely possible with solely national based corporations. The accounts of a nationally based corporation (if on public record, as we always expect) by definition show the risk arising within the jurisdiction in which it is based. The accounts for the subsidiary of a multinational corporation working in a jurisdiction do not do that because, by definition, they may include trading in other states. Country-by-country reporting, uniquely, addresses this issue.

Thirdly, having achieved these two aims country-by-country reporting lets any state, its politicians, regulators and civil society assess the risk that they face and consider the exchange they are getting for it. This data is then the basis for economic decision-making, as all good accounting information should be.

In the case of country-by-country reporting that data does also, as is noted in the report that follows, ensure its provision for the use of the providers of capital to companies. This then ensures that they too enjoy a view of the risks that they face that was previously unavailable. The coincidence of this benefit is not chance; it was designed into country-by-country reporting, but that does not mean it should be ignored. The data country-by-country reporting provides will allow participants in capital markets to better appraise the risks they accept; just as it will do that for those resident in the host countries of the activities of multinational corporations. This combination means that if risk is better understood the cost of capital will reduce and that has one, inevitable consequence, which is an increase in foreign direct investment and so growth.

Country-by-country reporting is intended to achieve that goal. Unlike most accounting reform it is intended to have macroeconomic, as well as microeconomic, impact. That may be why some have found it hard to understand. The intention is that this report should dispel the myths about this new method of accounting whilst explaining just what it can deliver.



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For the Tax Justice Network
May 2012

2. What is country-by-country reporting?

2.1. Overview of country-by-country reporting

Country-by-country reporting is in essence a simple idea. All it demands is that multinational corporations publish a profit and loss account and limited balance sheet and cash flow information for almost every jurisdiction in which they trade as part of their annual financial statements.

Country-by-country reporting was always designed to be accounting disclosure applying to all multinational corporations, whatever the sector they worked in. That is because the problems it addresses are universal and apply to all sectors.

Country-by-country reporting could be applied to all multinational corporations; that is, any company trading in more than one jurisdiction, whether through branches or subsidiaries: country-by-country reporting disclosure applies as readily to both. However, as is noted in this report it is likely that the public advantages of country-by-country reporting will be limited in the case of what are defined as small and medium sized companies. As such, as is noted later in this report, exclusions for those companies that are unlikely to be of significant public interest are provided for in the recommendations we make.

Much attention has in practice been given over the last few years to the application of country-by-country reporting in the extractive industries. That is because of the particular problems that are encountered with corruption, tax payments, host country relationships and transfer mispricing in that sector. Because of the importance of these issues two chapters of this report are dedicated to that sector and specific additional disclosure only relevant to its needs are detailed in this report. However, it is stressed that applying country-by-country reporting to any one sector creates its own problems in defining precisely which companies are, and are not, in that sector. In addition, the suggestion made by some that country-by-country reporting in the extractive industries only relates to the disclosure of payments made by companies to the jurisdictions that host their extractive activities is simply wrong. That is an abstraction from what country-by-country reporting really is almost as remote from full country-by-country reporting as accounting under current International Financial Reporting Standard is. Country-by-country reporting for the extractive industries has, like country-by-country reporting for all other sectors, to embrace the disclosures recommended in this report or it is not country-by-country reporting.

2.2. The problems country-by-country reporting was designed to tackle

As will become clear when the scope of the disclosures made by country-by-country reporting and the benefits they give rise to are discussed, country-by-country reporting is intended to address a wide range of information needs for the purposes of economic decision making by a wide range of parties who engage with a multinational corporation in the course of its trade.

That said, country-by-country reporting was specifically designed to answer questions on the following issues:

- a. In which countries does a multinational company operate?
- b. What are the subsidiaries of each multinational corporation called in each jurisdiction in which it operates?
- c. What is the scale of a multinational corporation's operations in each country in which it operates?
- d. How much does a multinational corporation have invested in each place where it trades?
- e. Where does a multinational corporation record its profits?
- f. Where does a multinational corporation pay tax and how much does it pay there?
- g. What is the extent of intra-group trading within multinational corporations?
- h. Where does the company engage staff and how well, on average, do they pay their staff in each jurisdiction in which they work?
- i. Where does a multinational corporation exploit natural resources, and to what extent?
- j. By implication, and based on analysis of the foregoing data:
 - i. What is the risk of there being serious transfer mispricing within the group?
 - ii. If the level of activity and profit vary widely within the group does this suggest a high risk of tax enquiry at potential cost to future earnings?
 - iii. Is the multinational corporation a big user of tax havens, and if so what is the likely scale of the risk that results?
 - iv. What is the geopolitical risk within a multinational corporation and is that exacerbated by low tax payments?
 - v. What degree of risk does a company face if its operations in any country were to close?
 - vi. Is the company's employment policy universally fair and if not what risk does that imply?
 - vii. Is the company's activity sustainable?

These questions, and many others, cannot be answered on the basis of financial statements prepared under International Financial Reporting Standard. This was the motivation for creating country-by-country reporting.

2.3. An outline of country-by-country reporting

To answer the noted questions country-by-country reporting would require disclosure of the following information by each Multinational Corporation (MNC) in its annual financial statements:

- 2.3.1. The name of each country in which it operates; a country for these purposes being defined as any jurisdiction in which it has a permanent establishment for taxation purposes;
- 2.3.2. The names of all its companies trading in each country in which it operates;
- 2.3.3. What its financial performance is in every country in which it operates, without exception, including:
 - 2.3.3.1.1. Its sales, both third party and with other group companies;
 - 2.3.3.1.2. Its hedging transactions, both third party and intra-group;
 - 2.3.3.1.3. Purchases, split between third parties and intra-group transactions;
 - 2.3.3.1.4. Labour costs and employee numbers;
 - 2.3.3.1.5. Financing costs split between those paid to third parties and to other group members;
 - 2.3.3.1.6. Its pre-tax profit;
 - 2.3.3.1.7. The tax charge included in its accounts for the country in question split as noted in more detail below;
- 2.3.4. Details of the cost and net book value of its physical fixed assets located in each country including the cost of all investments (including those relating to exploration) made in assets related to extractive industries activity by location and the proceeds of sale from disposals of such assets by location;
- 2.3.5. Details of gross and net assets in total for each country in which the entity 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:

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

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In addition, for companies within the upstream extractive industries the following would also be required to disclose for those locations where upstream activity occurs:

- 2.3.10. Accounting provisions made by location for the payment of the following (each being separately categorised):
 - 2.3.10.1. Signature fees and bonus payments due on signing an MDA;
 - 2.3.10.2. Annual rentals and other similar obligations;
 - 2.3.10.3. Royalties;
 - 2.3.10.4. Import duties;
 - 2.3.10.5. Export duties;
 - 2.3.10.6. Sales taxes;
 - 2.3.10.7. Taxes due arising as a result of employment of staff;
 - 2.3.10.8. Taxes due on dividends;
 - 2.3.10.9. Withholding taxes;
 - 2.3.10.10. Local government taxes
 - 2.3.10.11. Other taxes due.If the sum due was to be settled in kind and not cash this should be specified;
- 2.3.11. The total sum actually paid in respect of the taxes specified in paragraph 4.1.10. during the course of each year;
- 2.3.12. The opening and closing liabilities for the taxes noted in paragraph 4.1.10. each year.
- 2.3.13. Separate accounting, distinct from the turnover category, for all futures, derivative and forward contract sales with separate disclosure of purchases of similar financial instruments being disclosed with netting off not allowed;
- 2.3.14. Cumulative disclosure on a year by year and country-by-country basis of:
 - 2.3.14.1. Provisions made for taxes from the time that country-by-country reporting commenced;
 - 2.3.14.2. Total tax payments made from the time that country-by-country reporting commenced.
- 2.3.15. Estimated reserves data, by physical volume and estimated current market value realisation at the beginning and end of each year together with a reconciliation of these sums showing:
 - 2.3.15.1. Opening balance;
 - 2.3.15.2. Additions discovered during year;
 - 2.3.15.3. Estimated write downs during year
 - 2.3.15.4. Volume extracted during year for sale;
 - 2.3.15.5. Closing balance.

The ways in which this disclosure might be made are noted in subsequent chapters.

3. The extractive industries

3.1. The products of the extractive industries are so important they have helped define civilisation

All industries claim their unique significance to human well-being. The extractive industries have a greater claim than most to such significance. So important have they been in the development of civilisation that the products of bygone extractive industries have given their name to eras in history.

The bronze age and iron age are both named after the minerals humans had learned to both extract and use: use that defined how people lived.

The industrial revolution was built on the back of steam that resulted from the burning of coal. That process also changed our lives.

The golden era of post war capitalism from 1945 to 1973 was based on cheap oil and the hope of limitless nuclear power.

Since the 1990s much has changed when it has become apparent that the resources managed by the extractive industries are not limitless and that nuclear power is not (at least as yet) the panacea many had hoped for. In the light of that we now seek our destiny and fortunes on the basis of another mineral: Silicon Valley is aptly named.

The impact of the extractive industries has been significant and enduring throughout history. It is as important today.

3.2. The significance of the extractive industries

The significance of the extractive industries has now been widely recognised. It is now appreciated that our well-being is, in no small part, dependent upon our successful management of the finite and therefore depleting inanimate resources that we entrust to the care of the extractive industries.

As a result there is now widespread international consensus in favour of increased transparency in the extractive sector as evidenced by, for example, the immense support from governments, companies, investors, financial institutions and civil society for the Extractive Industries Transparency Initiative (EITI)^{vi}.

As the EITI notes^{vii}:

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- 3.2.1. The prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
- 3.2.2. The management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
- 3.2.3. The benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
- 3.2.4. Public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
- 3.2.5. Transparency by governments and companies in the extractive industries is vital to enhance public financial management and accountability.

The call for country-by-country reporting (CBC) by the Publish What You Pay (PWYP) coalition is a contribution to that process of public understanding based on transparent accountability designed to enhance the contribution the extractive industries can make to sustainable development in the interests of those who live in the countries that host extractive industries activity and in those countries that are dependent upon the output of that sector.

As PWYP argues^{viii}:

3.2.6. Promoting transparency of revenues and of extractive industry contracts is a vital first step towards alleviating the crushing poverty of ordinary citizens in many resource-rich developing countries around the world. It is fully consistent with internationally agreed objectives of good governance, corruption prevention, corporate accountability and sustainable development. Transparency is in the best interests of everyone concerned – citizens, companies, governments and the wider international community – and so we call on all relevant stakeholders to play their part in making it a reality.

3.3. The extractive industries can make and break economies

Oil has been the foundation of extraordinary prosperity for some countries, such as Norway. That is a reflection of its good fortune, its stable government and its ability to learn from others.

Even within Europe not all of have been so fortunate. The Netherlands is another relatively small European country apparently blessed with the good fortune of hosting a significant presence from the extractive industries but it has given its name to the so called 'Dutch Disease'. This term was first used by The Economist

magazine in 1977 to describe the decline of the manufacturing sector in the Netherlands after the discovery of a large natural gas field in 1959^{ix}. The observed consequence of hosting the EI was an increase in the host nation's currency's exchange rate that increased the price of its non-extractive industries exports to the point that they became unattractive in the market resulting in a loss of non-extractive industries activity in the country and a relative loss of well-being for the population as a whole for which the extractive industries activity may not compensate.

Much more significant, however, has been the so-called 'resource curse'. Too often rather than benefiting a country's citizens, abundant timber, diamonds, minerals, oil and other natural resources have incentivised corruption, destabilised governments, and lead to war. These consequences of individuals and groups in society seeking to control natural resources for personal enrichment rather than for the benefit of communities are what are called the 'resource curse'.

The Publish What You Pay campaign, backed by a wide range of NGOs and Civil Society Organisations (CSOs) argues that reporting of the revenue streams paid to governments that host the extractive industries can lead to those governments being held responsible for managing those resources for the benefit of all citizens in their resource-rich countries who would as a consequence get a fair share of their country's wealth.

The goal of country-by-country reporting in this context is twofold and additional to those applicable in all other sectors. First it seeks to provide data to assist the most effective economic management of the revenue streams derived from the extractive industries for all who live in a country that hosts the extractive industries. Secondly, it recognises that in the rest of the world many people are now dependent for their well being on cost effective, sustainable and reliable access to the resources that the extractive industries produces. They too need to know that the extractive industries are being well managed, in this case in the best interests of the world as a whole.

4. The extractive industries and the private sector

4.1. The ownership of mineral resources

The natural resources that the extractive industries exploit are not (with very rare exceptions) just anyone's to enjoy. They are owned by the states in whose jurisdictions they are found.

It is, of course, possible for the state in question to extract those resources itself. This has happened. It did in the United Kingdom when its coalmines were nationalised after World War 2. It still happens in Norway where Statoil is in state ownership. There are state owned oil and mining companies in many developing countries today.

The reality is, however, that state ownership of the extractive industries is unusual. The vast majority of the world's mineral resources are extracted and processed by private sector corporations. These companies can, of course, only do so because they have entered into contractual agreements with the countries that have ownership of the mineral resources they extract. The result is that the extractive industries are dominated by what are, hopefully, symbiotic contractual relationships between the state and public sectors.

4.2. The role of the host state in the extractive industries

If, as is commonplace, the host state for an extractive industries activity decides that a private sector company or companies should take the lead in exploiting the natural resources found within its jurisdiction, either alone or in partnership with a state owned enterprise then it is usual that a Mineral Development Agreement (MDA) (or a contract with a similar name) will be signed between the parties. As a result the right of the state to income from those resources is now reduced to contractual form.

The MDA will usually specify:

- 4.2.1. The geographic area in which the private sector company may search for and extract resources;
- 4.2.2. The time period during which it is allowed to undertake that activity;
- 4.2.3. The capital it must invest, at a minimum, in this activity and the time period and form in which this capital must be made available. This is particularly important if the state is a partner in the project and has to also provide capital, either in cash or in kind (the grant of the MDA often being considered a payment in kind in this regard);
- 4.2.4. Any minimum performance requirements that must be met if the contract is

not to be terminated early e.g. the agreed maximum time period until commercial extraction activity is undertaken or maybe minimum quantities to be extracted annually;

- 4.2.5. The way in which the resulting extracted products will be priced for sale;
- 4.2.6. The costs that may be offset against the sales price when calculating profit, and whether or not those costs must be incurred locally or not. There are, for example, frequently clauses requiring the employment of local labour;
- 4.2.7. What right of access the private sector company has to infrastructure such as roads, railways and ports within the territory; whether it is required to pay for the development of these if they are not available or what rent it must pay if it is to access existing facilities;
- 4.2.8. How profits will be calculated if not in accordance with standard accounting procedures or tax laws;
- 4.2.9. At what rate the host government will be remunerated for its participation in the activity. Likely rewards include:
 - 4.2.9.1. A fee on signing the contract;
 - 4.2.9.2. An annual fee thereafter or an annual rental payment in respect of the territory to which the private sector company has access;
 - 4.2.9.3. A royalty expressed as a percentage of the sale price for all minerals extracted;
 - 4.2.9.4. Import duties (although these are frequently waived under the terms of MDAs);
 - 4.2.9.5. Sales taxes (although again these are frequently waived as royalties are charged instead);
 - 4.2.9.6. Dividends or profit shares based upon the share of profit attributable to any state owned company that is a partner in the undertaking. Payment of such sums requires considerable care in determining how profit is to be calculated if it is not to be manipulated by either party;
 - 4.2.9.7. Taxes in respect of staff employed;
 - 4.2.9.8. Taxes on profits generated from the activity. Hopefully these will be calculated in accordance with the standard tax law of the jurisdiction but this is frequently not the case, with the taxation arrangements being agreed contractually and frequently for the duration of the contract under what are called 'tax stabilisation clauses'.
 - 4.2.9.9. Withholding taxes on international payments;
 - 4.2.9.10. Other sums to suit particular circumstances;
- 4.2.10. When these sums are due;
- 4.2.11. Whether these sums are due in cash or in kind e.g. some payments are made by giving oil or other minerals to the State for it to sell;
- 4.2.12. The right of the State granting the contract to audit these sums;
- 4.2.13. Whether or not the payments made are to be treated as confidential or not.

4.3. The advantages of Mineral Development Agreements

There are obvious advantages to MDAs:

- 4.3.1. The State gets access to capital it does not have available itself;
- 4.3.2. Expertise is imported into the State;
- 4.3.3. Risk for the State can be mitigated;
- 4.3.4. Timescales to production can be reduced;
- 4.3.5. The cost of accidents, environmental damage and other unforeseen issues might be outsourced;
- 4.3.6. A better price might be secured and revenues might be advanced.

Nothing in this report suggests that there is anything wrong with a State granting an MDA to a private sector company.

4.4. The problems of Mineral Development Agreements

There are, however, many real problems inherent within the structure of many MDAs:

- 4.4.1. The state has now lost control of its assets and has greater difficulty accounting for them as a consequence;
- 4.4.2. The MDA frequently creates a veil of opacity over the extractive activities within a state that makes it very hard in many cases for any information to be secured on what is really happening within them. This applies not only to third parties with that interest, but to politicians, regulators and the citizens of the host nation;
- 4.4.3. Details of payments made to the government in exchange for the MDA are often hard to secure, and data with which to verify the credibility of that data even harder to procure, and yet in many states this information is at the very core of the choices to be made about the effective economic management of that jurisdiction;
- 4.4.4. This veil of opacity makes it easier for corruption to take place;
- 4.4.5. The same veil of secrecy also makes it harder to hold the company that benefits from the MDA to account for its actions within the jurisdiction, especially if its local accounts are not required to be placed on public record (as is, too often, the case) and if its parent and immediately associated companies are located in tax havens (which is, again, too often the case) meaning that they too will place no information on their activities on public record. As such these companies cannot be assessed to determine if they are tax compliant or not. Tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken

coincides with the place and form in which they are reported for taxation purposes.

- 4.4.6. As a result it is hard to meet the criteria for effective management of the extractive industries within a jurisdiction suggested by the EITI and noted above because:
- 4.4.6.1. Data is not available to assess whether the use of natural resource wealth is prudent, or not.
 - 4.4.6.2. In particular, those in government or at least in opposition to government whose job it is to hold government to account will not have this data, undermining the accountability of the state for its action;
 - 4.4.6.3. The impact of changing economic circumstances cannot be assessed;
 - 4.4.6.4. Public understanding of government revenues and expenditure over time will be limited.
 - 4.4.6.5. The opacity of the government and companies in the extractive industries will undermine public financial management and accountability.

4.5. The absence of special reporting requirements for EI companies

- 4.5.1. Despite the obvious importance of the extractive industries for so many countries, and despite the extraordinary power that MDAs grant to individual companies to influence the well being of their host states there are almost no special accounting requirements in place for companies within the extractive industries.
- 4.5.2. So, for example, to date International Financial Reporting Standards have only required very limited additional disclosure by companies in the extractive industries. In particular IFRS 6 on Exploration and Evaluation of Mineral Resources requires disclosure of information that identifies and explains the amounts recognised in an EI company's financial statements arising from the exploration for and evaluation of mineral resources, including^x:
- its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
 - the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

This data is, however, required at group consolidated level.

- 4.5.3. There is no requirement at all that the accounts of operating companies

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located in host states of the extractive industries place their accounts on public record so that local information is made available on the activities of multinational corporations in those locations even though most MDAs are held by local subsidiaries of multinational corporations.

4.5.4. There are frameworks that are already used in practice for defining reserves and resources measures (the Petroleum Resource Management System for oil and gas and the CRISCO Template for minerals)^{xi}. These definitions were not, however, developed for accounting purposes, but rather for companies to use to manage their businesses. As such they are not used as yet in accounting disclosure.

4.5.5. It is true that many (but by no means all) extractive industries companies make extensive voluntary disclosures about their activities at local level, but this almost invariably focuses on reserves management and not revenue streams or payments to governments. This data is useful, but it is often inconsistent between companies and even periods in some cases, is inconsistently available and is incomplete with regards to many aspects of the information required to monitor effectively the activities of the extractive industries within a state. In addition much of it is not audited, and this has given rise to difficulties in the past.

4.6. The role of country-by-country reporting in the extractive industries

Country-by-country reporting is intended to provide the necessary transparency for the trading of the multinational corporations that benefit from MDAs in developing countries so that the extractive industries in those places comes under the necessary scrutiny to ensure they can fulfill its promise of delivering sustainable development for all who live in the countries that host such activity. In particular, country-by-country reporting is intended to stress particular issues for the EI including the significance of:

- Reserves, their valuation, use and potential for generating future revenue;
- Revenue streams payable to governments of special significance in the extractive industries;
- The significance of reporting trades in goods and trades separately from those in derivatives, hedging, futures and other financial products in the extractive industries;
- The need to highlight cash flow to reconcile accruals accounts with payments made to governments so that the latter can be held to account for the use of the funds that they receive;

- The significance of investment and disinvestment decisions by location;
- The importance of the overall net investment a multinational corporation makes in a location as indication of its commitment to its operations in that place, especially in the event of problems arising, for example of an environmental nature, for which it has liability.

These particular needs are reflected in the design of country-by-country reporting suggested in the next chapter.

Perhaps what is most important to note is that tackling corruption is not high on this list and economic issues are, but it is important to note how country-by-country reporting could assist tackling corruption. Because the data referred to in the next chapter ensures that all the information needed to prefer standard template Extractive Industries Transparency Initiative reports is readily available that process, which does ensure governments are held to account for the funds entrusted to their care will be much easier to achieve. In this way we see country-by-country reporting and the Extractive Industries Transparency Initiative as completely complementary processes.

5. The disclosures to be made by country-by-country reporting

The proposed disclosures to be made by those multinational corporations required to undertake country-by-country reporting within the extractive industries would as a result of the above be as shown in the table that follows.

This table also notes those occasions when due to immateriality more limited disclosure might be made.

Disclosure	Notes
1. The name of each country in which the multinational corporation operates.	
2. The names of all its companies trading in each country in which it operates;	<ul style="list-style-type: none"> • The disclosure is required by company by country: a subsidiary trading in more than one country may therefore be disclosed more than once; • The disclosure required is of all entities subject to any part of the consolidation process i.e. disclosure is required of all subsidiaries and associated companies unless they are dormant throughout the period to which the accounts relate.
3. A full country-by-country reporting financial statement is required for those jurisdictions meeting specified criteria that ensure they are considered material for disclosure purposes.	<p>A full country-by-country reporting financial statement will be required if one of the following four situations arises:</p> <ol style="list-style-type: none"> 1. Turnover plus hedging derivative and financial income (as per accounts pro-forma noted below) in the jurisdiction exceeds US\$5 million in the reporting period; 2. The net value of tangible fixed assets in the jurisdiction increases by more than US\$ 5 million in the reporting period. 3. Turnover plus financial income in the jurisdiction exceeds 5% of the total consolidated turnover plus financial income of the reporting entity during the reporting period. 4. The jurisdiction is one in which upstream extractive industries activity occurs. <p>If any of these circumstances arises then the country for which disclosure is required is considered highly material for country-by-country reporting purposes and full audited disclosure of its activities within that jurisdiction is required.</p> <p>A financial <i>de-minimis</i> by country is specified</p>

	<p>because materiality for country-by-country reporting purposes must always be determined at the level of the country, not at the level of the reporting entity.</p>
<p>4. A more limited country-by-country reporting financial statement is required for those jurisdictions meeting specified criteria that ensure they are considered to have reduced materiality for disclosure purposes.</p>	<p>This more limited requirement will exist if one of the following situations arises:</p> <ol style="list-style-type: none"> 1. Turnover plus hedging, derivative and financial income (as per pro-forma noted below) in the jurisdiction exceeds US\$1 million in a reporting period; 2. The net value of tangible fixed assets in the jurisdiction increases by more than US\$ 1 million in a reporting period; 3. The situations noted in part (3) section (3) above have not arisen. <p>In these cases the activities of the reporting entity may be material to the country for which disclosure is required, but that significance is not sufficient to require the additional cost of audit. As such unaudited disclosure of a more limited range of data (as noted below) will be sufficient country-by-country reporting for these jurisdictions.</p>
<p>5. Disclosure of a trading presence within the jurisdiction is required but no further financial disclosure is necessary.</p>	<p>This situation will arise where either:</p> <ol style="list-style-type: none"> 1. Turnover plus hedging, derivative and financial income (as per pro-forma noted below) in a jurisdiction is less than s US\$1 million in a reporting period and; 2. The net value of tangible fixed assets increased by less than US\$ 1 million in a reporting period. <p>If these situations arise then the disclosure to be made for the country in question is unlikely to be material to any understanding of the financial statements. In addition the activity of the reporting entity is likely to be immaterial to the host country itself and as such the cost of financial disclosure is not necessary bar a note to say that the conditions for disclosure have not been met in the jurisdictions in question but that a permanent establishment of the multinational corporation does exist in the jurisdiction.</p> <p>To ensure reconciliation of the country-by-country reporting data to the full financial statements activity for all these otherwise undisclosed countries should be aggregated and disclosed together as “other individually immaterial jurisdictions”.</p>

Country-by-country reporting

5.1. Pro-forma layout of country-by-country reporting disclosures

The full disclosure required for each jurisdiction for which audited country-by-country reporting disclosure would be required under this proposal (for the reasons noted in (3) above) is proposed to be as follows (with the items in italics not being required in the case of those jurisdictions to which paragraph 4 above relates). A number in brackets is expected to be an expense and is as a result deducted from income:

Profit and loss account		Currency unit	Currency unit
Turnover	Third party		X
	Intra-group		X
	Total		<hr/> X
Hedging, futures and derivative sales – third party		X	
Hedging, futures and derivative sales – intra group		X	
Hedging, futures and derivative purchases – third party		(X)	
Hedging, futures and derivative purchases – intra group		(X)	
		<hr/>	
Net total			X
<i>Purchases</i>	<i>Third party</i>	(X)	
	<i>Intra-group</i>	(X)	
	<i>Total</i>	<hr/>	(X)
<i>Labour costs</i>			(X)
<i>Number of employees (note)</i>	<hr/> X		
<i>Provisions in the extractive industries for:</i>			
<i>Signature bonuses</i>		(X)	
<i>Ground rents</i>		(X)	
<i>Royalties</i>		(X)	
<i>Import duties</i>		(X)	
<i>Export duties</i>		(X)	

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<i>Sales taxes</i>	(X)	
<i>Taxes due on payroll costs</i>	(X)	
<i>Taxes due on dividends if not shown elsewhere</i>	(X)	
<i>Withholding taxes if not included in tax charge</i>	(X)	
<i>Local government taxes due</i>	(X)	
<i>Other payments due to government and its agencies</i>	(X)	
		(X)
Total provision for payments due to government and its agencies		(X)
Operating profit		X
Finance income – third party	X	
Finance income – intra-group	X	
Finance expense – third party	(X)	
Finance expense – intra-group	(X)	
		X
Net finance cost		X
Operating profit		X
Current tax charge	(X)	
Deferred tax charge	(X)	
		(X)
Tax charge		(X)
Net profit after tax		X
		X
Dividends paid (Note)		X

Country-by-country reporting

Balance sheet

Total tangible assets (analysed in the extractive industries to show brought forward, additions, disposals and depreciation result in net carried forward)			X
Total intangible assets			X
Total fixed assets			X
<i>Current assets</i>	<i>Third party</i>	X	
	<i>Intra-group</i>	X	
Total current assets		<hr/>	X
<i>Current liabilities</i>	<i>Third party excluding tax</i>	X	
	<i>Corporate Tax</i>	X	
	<i>Other liabilities to host governments</i>		
	<i>Intra-group</i>	X	
Total current liabilities		<hr/>	(X)
Net current assets			<hr/> X
<i>Deferred liabilities</i>	<i>Third party excluding tax</i>	X	
	<i>Corporate Tax</i>	X	
	<i>Deferred tax</i>	X	
	<i>Other liabilities to host governments</i>		
		X	
	<i>Intra-group</i>	X	
		<hr/>	(X)
Net assets, equivalent to shareholder funds			<hr/> <hr/> X

Cash flow

Corporation tax paid	X
	<hr/>
<i>And for extractive industry companies only (and without exception regardless of turnover):</i>	
<i>Total paid to host government in respect of liabilities disclosed in profit and loss accounts of current and previous periods</i>	X
	<hr/> <hr/>

NB: cumulative and comparative data and reserves data are not shown on this pro-forma but would be required where appropriate.

A full tax note is also required for each jurisdiction reconciling to the full audited multinational corporation financial statements.

6. The reasons for country-by-country reporting disclosure

The data that country-by-country reporting would supply would meet the following information needs, all of which are illustrative and not intended to be complete indication of the benefits arising:

Data disclosed	Information need met
1. The name of each country or jurisdiction in which a multinational corporation operates (as defined by the presence of a permanent establishment for taxation purposes);	<ul style="list-style-type: none"> • Discloses geographic spread of the multinational corporation; • Advises host communities of the presence of the multinational corporation in their jurisdiction; • Indicates presence in locations likely to be subject to geo-political risk; • Indicates exposure to local regulatory and tax regimes.
2. The names of all its companies trading in each country or jurisdiction in which it operates;	<ul style="list-style-type: none"> • Identifies completely and accurately the full group structure of a multinational corporation, a feat rarely possible at present ; • Lets a multinational corporation be properly identified in the host communities that facilitate its activities; • Allows those engaging with a multinational corporation locally to identify ultimate responsibility for the entity with which they are trading; • Ends the corporate culture of secrecy about activities in many jurisdictions, whether they are secrecy jurisdictions or not; • Means a multinational corporation is accountable for all its actions – a pre-condition of corporate social responsibility.
3. Sales, both third party and with other group companies.	<ul style="list-style-type: none"> • The extent and direction of sales flows by multinational corporations will be documented; • The full extent of intra-group sales will be understood for the first time; • The use of tax havens / secrecy jurisdictions as locations for the routing of intra-group transactions will be properly understood; • The relocation of sales for tax purposes will

	<p>be identifiable;</p> <ul style="list-style-type: none"> • The risk inherent in internal supply chains will become apparent
4. Hedging, futures and derivative sales and purchases	<ul style="list-style-type: none"> • Tax haven / secrecy jurisdiction locations are frequently used to relocate risk within multinational corporations using financial instruments of these sorts. Disclosure of all transactions of this sort and those undertaken within groups will show the extent to which profits are relocated using financial instruments.
5. Purchases, split between third parties and intra-group transactions	<ul style="list-style-type: none"> • This data is requested to complement that on sales: when the sales of a multinational corporation from a jurisdiction are largely matched by intra-group purchases it is likely the jurisdiction is being used for re-invoicing purposes and transfer mispricing may be taking place: a cause of concern to almost all tax authorities; • The extent of outsourcing in source jurisdictions likely to be at the start of supply chains can be identified, especially when compared to labour data (see below); • The vulnerability of supply chains can be identified; • By comparing intra-group purchases and intra-group sales likely intra-group supply chains can be established; • Sourcing from locations with high geo-political risk should be identifiable
6. Labour costs and employee numbers	<ul style="list-style-type: none"> • The organisation of labour by jurisdiction within multinational corporations can be identified; • Unusual incidence of value added in proportion to labour cost can be identified; • The likelihood of outsourcing can be identified; • Average reward per employee by jurisdiction can be calculated; • Trends in labour relationships over time can be monitored.
7. Provisions for payments to government within the	<ul style="list-style-type: none"> • Provisions data prepared on an accruals basis is essential so that this information

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extractive industries	<p>can be consistently compared with other data similarly prepared on an accruals basis within the financial statements;</p> <ul style="list-style-type: none">• The data in question provides enormously powerful data that indicates whether the assets of the extractive industries within a jurisdiction are well managed or not. So, for example:<ul style="list-style-type: none">○ The provision for royalties when compared with sales data will indicate the rate of royalties due and whether these are consistent over time;○ Signature bonus rates will indicate whether concessions are being granted in exchange for suitable fees;○ Rents receivable also indicate whether good deals have been done;○ The presence of payments for import and export duties indicate whether the extractive industries are subject to the same taxes as other industries;○ Taxes due on employment compared to employee costs indicate whether appropriate taxes are being paid when compared to published rates;○ The rate of tax withholding indicates whether or not the country allows profits to be extracted with or without a tax charge. Since withholdings are often due on payments that artificially reduce profits that might be subject to tax such as interest paid and royalties for the use of known how or technology withholding taxes can be an important mechanism for protecting the tax base of a country;○ The rate of corporation tax due on profit indicates whether standard or non-standard tax rates apply;○ Knowing whether tax charges are deferred or not indicates whether a country is likely to see immediate benefit or not of the tax charges arising
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	<p>on profits. In far too many cases tax liabilities are deferred for considerable periods denying local populations the benefit of taxes that appear to be due.</p> <ul style="list-style-type: none"> • Comparing the above data with opening and closing tax liabilities and the cash flow statement allows checks to be undertaken to ensure that declared liabilities are not lost in transit to the government when the time comes for payment – which is an important anti-corruption measure.
<p>8. Financing costs split between those paid to third parties and to other group members</p>	<ul style="list-style-type: none"> • Financial flows indicate where financial assets and liabilities are located within and beyond multinational corporations: disclosure of income and payments, especially on an intra-group basis will indicate the extent to which profits are relocated through the use of debt that creates internal and external financial risk within the multinational corporation.
<p>9. Pre-tax profit;</p>	<ul style="list-style-type: none"> • Pre-tax profit is, without exception, the principle starting point for determining: <ul style="list-style-type: none"> ○ The location of retained reserves; ○ The ability to finance activity without recourse to third parties; ○ The likelihood of ongoing financial stability of the entity; ○ The potential for making payment of taxation liability on income arising; <p>Each of these is of massive concern to the extractive industries, especially in the light of the considerable environmental risks it often exposes a country to;</p> • Pre-tax profits located in many countries where there is considerable corporate secrecy are currently wholly unascertainable; • The presence of significant profit in locations where most purchases and / or sales are intra-group might indicate artificial relocation of profits; • The absence of profits in locations where it

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	<p>would be expected there should be considerable value added e.g. in source locations for extractive industry supply chains, might indicate transfer pricing concerns are appropriate;</p> <ul style="list-style-type: none"> • Persistent losses in a jurisdiction might indicate the misallocation of resources by a multinational corporation, as might strongly differing profit rates between jurisdictions; • Significant profits arising in politically sensitive jurisdictions might indicate vulnerable future earnings; • Significant earnings in tax havens / secrecy jurisdictions might indicate high tax risk or unsustainably low tax charges indicating a likely change in future after tax earnings ratios; • Significant profits arising outside a parent company location where corporate taxation is assessed on a remittance basis might indicate limited access to funds for dividend distribution purposes.
<p>10. The tax charge for the year split between current and deferred tax;</p>	<ul style="list-style-type: none"> • The extent to which a tax charge is expected to arise when compared to headline tax rates indicates the effectiveness of a tax regime in capturing income for tax assessment purposes; • The degree to which corporate tax liabilities can be deferred indicates the existence of incentive allowances out of alignment with economic costs incurred, and indicates future potential reversal and erratic cash flows; • The ratio of tax paid to profitability across jurisdictions is at present unknown: country-by-country reporting would provide it and indicate the extent and nature of cross border tax planning and international tax arbitrage; • If a declared tax rate appears aberrant it may indicate unsustainability.
<p>11. The actual tax payments made to the government of the</p>	<ul style="list-style-type: none"> • It is not accruals made for tax that allow governments to meet their obligations – it

<p>country or jurisdiction in the period;</p>	<p>is cash in its bank accounts that allows it to do that: cash paid is the ultimate proof of tax settled. This data is currently entirely unavailable and as such the contribution of multinational corporations to individual national economies is very hard to assess;</p> <ul style="list-style-type: none"> • It is cash that is the subject to corruption: it is cash for which governments have to be held to account. This data is vital for that purpose; • Cash settlements of less than liabilities declared in earlier years suggest the presence of undetected tax planning or corruption. In either case the effectiveness of the tax regime of the jurisdiction is in question.
<p>12. The liabilities (and assets, if relevant) owing for tax, whether corporation tax or those due in the extractive industries, at the beginning and end of each accounting period</p>	<ul style="list-style-type: none"> • This data is required to undertake an overall tax reconciliation for a jurisdiction: tax due at the beginning of the period plus the current tax charge for the period less tax paid should equal the closing liability. If it does not there is indication of irregularity in accounting or in the statement of taxes due, in either case worthy of investigation; • The failure of a jurisdiction to collect tax owing to it is indicated by this data: if tax outstanding relates to more than one year prime facie there is a tax collection problem within the jurisdiction or the entity is declaring liabilities in its accounts that are inconsistent with those declared to tax. In either case problems are indicated.
<p>11. Deferred taxation liabilities for the country or jurisdiction at the start and close of each accounting period.</p>	<ul style="list-style-type: none"> • Deferred taxation indicates any of these things: <ul style="list-style-type: none"> ○ Excessive allowances offered by the jurisdiction; ○ The existence of significant tax avoidance; ○ A non-alignment of taxation with underlying economic reality; • In each case there is cause for concern.
<p>12. Details of the cost and net book value of its physical fixed</p>	<ul style="list-style-type: none"> • Without indication of the capital dedicated by a multinational corporation to a

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<p>assets located in each country or jurisdiction and</p> <p>13. Details of its gross and net assets in total for each country or jurisdiction in which operates.</p>	<p>jurisdiction it is not possible to calculate:</p> <ul style="list-style-type: none"> ○ Rate of return on capital employed in the jurisdiction and to compare these; ○ To determine whether capital invested justifies the level of profit reported; ○ To determine whether capital assets are being appropriately allocated to support labour productivity, or not; ○ To determine where assets and liabilities are likely to be within a group and whether they are as a consequence available a) to shareholders and b) to creditors.
<p>14. Cash flow data on tax paid</p>	<ul style="list-style-type: none"> • Essential to assist the analyses of tax due noted above and also to reconcile with Extractive Industries Transparency Initiative data.
<p>15. Cumulative summary data on profits and taxes paid</p>	<ul style="list-style-type: none"> • The relationship between a host nation and the multinational corporations that enjoys the benefit of an MDA is a long term one. Summary data allows a long term view of the benefits of the relationship to be appraised.
<p>16. Reserves data</p>	<ul style="list-style-type: none"> • Information vital to appraisal of the success or otherwise of the MDA that the multinational corporation is managing; • Essential for calculating average sales prices to assess whether they are in line with market expectations; • Vital for disclosing the potential future revenues of the extractive industries for the host jurisdiction.

7. The benefits of country-by-country reporting

7.1. The advantages of this disclosure for the investor

This disclosure provides the following additional or easier to access information for investors in any multinational corporation reporting on a country-by-country basis:

7.1.1. A comprehensive disclosure of the locations in which the corporation trades.

In principle this is already available to investors in EU located MNCs as a result of requirements in the Fourth and Seventh European Directives on accounting. In practice, as research has shown, disclosure of this information is almost always relegated to secondary documentation when that is possible (as it is, for example, in the United Kingdom) and that disclosure in secondary documentation is noticeably absent^{xii}. A 2009 study for the Tax Justice Network showed that of the 100 largest companies in the UK just 33 filed the information required by UK company law stating the names of each of their subsidiaries and the country in which they were located. A subsequent survey by ActionAid showed improved compliance by this group of companies but that does not indicate any change in the general regulatory environment where general rates of compliance with corporate disclosure requirements are low^{xiii}. This deficiency would be overcome if the information were to be included in the audited financial statements of the reporting entity because no auditor would then allow that omission.

If this disclosure were required investors would be empowered to form opinion on the following issues which in many cases is currently denied to them:

- a. Whether they wish to invest in corporations with assets in locations they do not wish to associate with. This is of particular importance to ethical investors;
- b. To what extent, if any, the MNC is dependent upon the use of subsidiary companies in tax haven locations;
- c. The degree of exposure to geopolitical risk that the company is likely to face, simply by presence in certain locations;
- d. The degree of reputational risk that the company might face as a consequence of its decision to trade in certain locations;
- e. Trends in the geographic spread of the company's activities over time, indicating diversity, or absence thereof.

7.1.2. The trading names that the company uses

Whilst there are, of course, occasions when an MNC trades almost universally under its own name this is relatively rare. Many corporations that will be subject to country-by-country reporting are conglomerates by nature and it is hard for an investor to identify accurately the trade it undertakes by location and by name. Given that ultimately all investors are real people who are located in a place it is vital that they can identify the MNC in which they might invest with the local economic activity it undertakes in their home jurisdiction if they are to undertake proper investment appraisal of its activities in the location with which they are familiar. Evidence suggests that this is surprisingly hard in some cases with some MNCs. Country-by-country reporting will help people identify who they are really trading with.

7.1.3. The publication of a profit and loss account for each jurisdiction (excluding those considered wholly immaterial as noted above) in which an MNC trades

This data, including data on sales and purchases undertaken on an intragroup basis, will allow an investor to appraise the following:

- a. The geographic diversity of the external sales of the company;
- b. The risk that this diversity creates for the company;
- c. The risk that the internal sales supply chains create for the company, most especially for governance: the use of tax havens has frequently been associated with governance failures leading in turn to corporate failure e.g. in the cases of Enron and Parmalat;
- d. The approximate directions of flow of goods and services through the group as a result of intragroup trading;
- e. The profit earned by a group in each location as a proportion of third-party and intragroup sales, both indicating in turn the risk of a transfer pricing challenge arising, particularly if the group is making significant use of tax havens or if the ratios of profit to sales are high in low tax jurisdictions and low in high tax jurisdictions;
- f. The locations in which an MNC employs its labour, the degree of risk that this might give rise to, and any issues or stresses likely to arise as a result of significant variations in average pay by location, particularly when compared to other similar undertakings;
- g. The flow of finance charges within the group, and the particular impact that these might have on an intragroup basis with regard to the re-allocation of profits between jurisdictions, giving rise to risk of transfer pricing or thin capitalisation challenge from taxation authorities, prejudicing the potential quality of future earnings;

- h. The rate of return on capital employed by jurisdiction, suggesting whether or not assets are efficiently allocated by group management to the locations in which the MNC trades;
- i. The constitution of the tax charge by location, so that the impact of taxation allowances and reliefs on the current taxation charge, as indicated by the amount of charge deferred, can be assessed by location, giving indication of the potential for reversal of such benefit in future periods, meaning that the impact of such reversal on future cash flow can be assessed;
- j. Consistent, comparative data between companies allows this analysis to be replicated between MNCs, adding to the basis for assessment of activity by location and the effectiveness of the management of each corporation in allocating resources.

7.1.4. Limited balance sheet data by jurisdiction

This data is essential if investors are to appraise:

- a. The rate of return on capital by jurisdiction;
- b. The allocation of resources by the reporting entity;
- c. The exposure to risk of capital loss by jurisdiction, particularly in politically vulnerable situations;
- d. The contribution that deferred tax makes to financing by jurisdiction;
- e. Policy with regard to the retention of earnings by jurisdiction, giving indication on taxation management and planning and any resulting vulnerabilities and their impact on allocation of resources, particularly when dividends are taxed in the parent location on receipt;
- f. The vulnerability of dividend policy to the retention of reserves in low tax jurisdictions.

7.1.5. Sales data

Sales data from and to jurisdictions has always been of significance when appraising the geographic spread of markets, and the ways in which a corporation services them. It is highly likely that this type of analysis, which has long been included in segment reporting when undertaken on a geographic basis, will continue to be of interest to investors. To ensure the supply of this data within country-by-country reporting disclosure must be made of the destinations of third party sales made by the reporting entity excluding those locations where such sales are less than US\$5 million or 5% of third party turnover declared in the financial statements, if lower.

Recent publicity e.g. concerning the sales activities of companies like Google, Amazon, Apple, Facebook and others, suggesting that many or most of their

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worldwide sales are billed from tax havens using arrangements that some might suggest are vulnerable to transfer mispricing challenge, emphasise the importance of this data in assessing taxation risk in many companies.

7.1.6. Data on payments made by companies in the extractive industries

Data on payments made by multinational corporations to the governments that host their upstream activities are of considerable importance to investors, because the proper governance of such payments and the elimination of illicit flows arising from them is critical to the maintenance of low risk, long-term, stable earnings from these jurisdictions, whose own well-being is dependent upon receipt of such funds in a controlled, accountable and managed fashion. The more an MNC engaged in this sector cooperates with those seeking to eliminate corruption and abuse associated with the “resource curse” that has long plagued this activity, the more likely it is to enjoy long-term stable earnings from the extractive industries in the current world political environment and as such this data is vital to the proper appraisal of the degree of cooperation the company is offering in the elimination of illicit financial flows whilst assessing the contribution made to the countries who host its activities, which is fundamental to the maintenance of the critical long-term relationships that underpin success in this sector.

For all the reasons noted, country-by-country disclosure is vital to investors who wish to properly appraise the activities of the MNCs to which they loan funds or in which they hold equity stakes.

In summary, it is suggested that country-by-country reporting data will supply the following benefits to investors in multinational corporations:

- a. Increased profitability because less time will be put into tax management and more into making profit;
- b. Reduced risk;
- c. Greater confidence in the governance of the enterprise;
- d. Enhanced ability to predict future earnings;
- e. Better valuation of the company;
- f. Greater stability of earnings.

7.1.7. Consequences for investors

As a consequence of the data country-by-country reporting could provide to investors, noted above. Those investors could:

- a. Better decide which companies they wish to engage with;

- b. Mitigate their risk;
- c. Demand better allocation of resources both within and between companies in an investment portfolio;
- d. Better hold the management of companies to account for their actions;
- e. Enhance their investment returns;
- f. Consequently produce better returns for those dependent upon those returns e.g. pensioners, charities and others.

The result is that country-by-country reporting could provide a considerable social dividend for society at large.

7.2. The benefit of country-by-country reporting to “other users” of financial statements

Some of the benefits of country-by-country reporting for those with an interest in the financial statements of a multinational corporations but who are not investors in it and who do not regulate it are :

7.2.1. For management of the company

- a. Better management of data within the organisation;
- b. Increased accountability within the organisation;
- c. Enhanced governance as a consequence;
- d. Better data for decision making and resource allocation purposes;
- e. Better risk management data.

7.2.2. For stakeholders

- a. Improved data on what the company does, where it does it, and who it does it with;
- b. The ability to hold the company to account locally as well as globally on a wide range of issues;
- c. The chance to decide that this is an organisation civil society wants to applaud;
- d. Better data on trade for those concerned with trade, environmental, resource, tax and human justice.

7.2.3. For employees

- a. Better data in advance of working for a company;
- b. Better data to assist employment negotiations with a company;
- c. Comparable data to assess whether a company is consistent in its dealings with its employees;
- d. Data to prevent abuse.

7.2.4. Suppliers and customers

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- a. Reduced risk from trading with a multinational corporation because local data on its operations will be available.

As a result country-by-country reporting could provide a social dividend to all these groups as well as to the providers of capital to a company.

7.3. Tax authorities

Country-by-country reporting offers considerable opportunities to access new data for tax authorities anxious to ensure the subsidiary companies of multinational corporations are tax compliant when operating within their jurisdictions. Tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

Some of these opportunities are as follows:

7.3.1. Risk assessment

All tax authorities have limited tools at their command. Country-by-country reporting data lets any tax authority better and more cost effectively assess the risk that the subsidiaries of a multinational corporation trading in its jurisdiction are avoiding tax. This can be done by applying a unitary apportionment formula overlay to the group data as a whole that is disclosed in the multinational corporation's financial statements and by then comparing the result of this calculation with the amount of profit declared and tax due as a result of the combined activities of the multinational corporation's subsidiaries within its jurisdiction.

Under the rules of unitary taxation, which are widely used to allocate profits between companies operating in different states within the USA and have therefore been extensively tried and tested, the total group profit is allocated to locations on the basis of a formula. The classic formula is called the Massachusetts apportionment and it allocates profit on the basis of a formula that gives equal weighting to third-party sales, employees and physical fixed assets made from or located in a jurisdiction. One of the reasons for requiring employee and fixed asset information to be disclosed under country by country reporting is to ensure that sufficient data is available to allow a unitary apportionment formula allocation to be undertaken with regard to any group of companies to which country by country reporting would apply to determine whether its profit allocation looks reasonable or not on that basis.

Using a formula apportionment method means that artificial reallocations of

activity within a group can be largely eliminated from consideration when deciding the likely profit arising within a group. This is especially so if third party sales are stated net of intra-group purchases to negate their artificial reallocation, which is why data on intra-group transactions is essential in any country-by-country reporting system. As a result the objectives of the ‘arms length principle’ or transfer pricing that the OECD promotes as the ideal solution to solving transfer pricing disputes can be replicated by a unitary apportionment calculation based on country-by-country reporting data but with much less effort than is the case under the OECD’s chosen bilateral approach, which can in any event lead to more than or less than the whole of a group’s profit being taxed.

All the data to prepare such a calculation would be readily available in country-by-country reporting data. Various alternative hypotheses could also be tested e.g. sales could be based on both a source and destination approach, and labour could be based on head count or total labour cost.

Whichever approach is used, without having to actually put a unitary apportionment formula system of calculation of taxable profits in place country-by-country reporting would allow the use of such data to determine whether the profits declared in a jurisdiction were likely to be appropriate given the allocation of the underlying drivers of profit that the formula method of attribution recognises with the jurisdiction. If the declared profits accorded closely with the formula apportioned profits then there would be little point in pursuing a tax investigation into the affairs of the multinational corporation in question on the basis of transfer mispricing; no serious error would be likely to be found. Alternatively, of course, high risk might be identified and then an investigation could follow with a much increased chance of the cost incurred proving to be remunerative for the jurisdiction in question.

If country-by-country reporting was only of use for this purpose for tax authorities it is likely to considerably increase the effectiveness of tax authorities worldwide in challenging transfer mispricing.

7.3.2. Arms length pricing data

As Michael Durst^{xiv} has noted:

The basic tenet of arm’s-length transfer pricing – the availability of “uncontrolled comparables” for transactions between commonly controlled parties – is based on a fundamental misunderstanding of practical economics. Multinationals groups form because in some industries and markets, it is economically infeasible to operate

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nonintegrated business. For example, in large markets, it is not feasible for manufactures and distributors to be separately owned. That means that for transactions between members of multinational groups – precisely the transactions for which transfer pricing rules are important – the uncontrolled comparables on which the current rules try to depend seldom if ever exist. There is, therefore, a gaping conceptual hole at the heart of the OECD transfer pricing guidelines, as well as the national rules of the United States [in the U.S. Internal Revenue Code] and many other countries.

Durst is right: this is a massive problem with regard to the application of the OECD's arm's length principle. The problem is especially severe outside the OECD states, where the OECD's principles are now being proposed as a mechanism for controlling transfer mispricing.

Finding appropriate uncontrolled comparables can be exceptionally difficult in OECD countries. Outside them it can be virtually impossible because:

- a. It is rare for information on local companies to ever be put on public record;
- b. That data that is on public record is likely to come from the subsidiaries of multinational corporations;
- c. That data from the subsidiaries of multinational corporations is controlled data i.e. it has been subject to the same rules on arm's length transfer pricing as the company that is seeking to use it to establish an arm's length price. By definition it is unsuitable as a result, especially if it is not possible to determine what part of its turnover is with third parties and what part is intra-group as is invariably the case for accounts prepared under International Financial Reporting Standard since intra-group transactions need not be disclosed in detail under those accounting standards.

The consequences of these failures are that:

- i. Suitable comparables are not available, in which case the arm's length model fails and, in almost all cases a cost plus model of pricing is used instead, which invariably fails to allocate profits appropriately;
- ii. The comparables used are not suitable because it is not apparent that they comprise controlled data;
- iii. The comparables are themselves based on cost plus pricing which simply reinforces low profit margin models for profit recognition in developing countries in particular.

Country-by-country reporting cannot overcome the inherent deficiencies in

the OECD's model of arm's length pricing as identified by Michael Durst, David Spencer and others. What it can do is:

1. Populate databases with data where there is none at present in a way that nothing else possibly can;
2. Indicate the degree of reliability of the resulting data for use as transfer pricing comparables: this is possible because the disclosure of intra group purchases and sales permits the estimation of the proportion of the activity of the company supplying the data that might be considered uncontrolled;
3. By providing significantly more data than might otherwise be available should prevent recourse to cost plus transfer pricing modelling wherever possible.

7.3.3. Dispute resolution

Transfer pricing is, despite the OECD's claims, a deeply subjective issue; most especially when using the OECD's model or arm's length pricing when limited comparable pricing data is available at best and the company with whom the tax authority is in dispute is refusing to supply information on the allocation of profits within its vertical supply chain, as often happens.

One of the particular problems faced in this circumstance is the lack of accounting data on what happens in jurisdictions other than the one in which the dispute is occurring. Country-by-country reporting overcomes this problem. If the vertical supply chain can be tracked, as is often possible, then country-by-country reporting will provide a good indication of the allocation of profit margins within it and how intra-group trading might help reallocate these. The result is that the data needed to resolve many disputes in favour of the tax jurisdiction raising the transfer mispricing enquiry will be available for the first time.

The consequence of these benefits would be a reduction in the world wide tax gap – which is the difference between the tax revenues the governments of jurisdictions expect to receive and those that they actually receive. This tax gap is estimated to be US\$3.1 trillion at present^{xv}. No one pretends that the yield arising from the use of country-by-country reporting would be anything like that sum but even a small proportion could be transformational.

7.4. Other regulators and agencies

A wide range of regulators, from those dealing with competition, to energy, labour, the media, the environment and more need information on where companies are, what they do in each place that they operate, how many people they engage in

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such places and what profits they make as a result. In a great many cases their ability to regulate has been hindered by an absence of data, to the advantage of the multinational corporations they have been charged to oversee. Country-by-country reporting will as a result help deliver more effective regulation in the public interest and it is likely to ensure that this is also achieved at lower cost.

7.5. The broader economic benefits of country-by-country reporting

Accountants and economists appear to have little appreciation of the understanding that physicists developed as long ago as 1927 that the simple process of measuring something changes the behaviour of the behaviour being measured^{xvi}. There is no doubt that the introduction of country-by-country reporting would have significant macro-economic implications. Some of these are explored here.

7.5.1. The macroeconomic data country-by-country reporting would provide would allow better regulation of world trade

It is a simple fact that at present due to the absence of published accounts for very large parts of the world's trade we know remarkably little about trade flows, who controls them, what impact they have, what risks they give rise to and how those risks might be better managed. It is, as a result, and for example, impossible to build models for world trade based on existing data where outflows equal inflows even though, very logically, it is an accounting definition that such balance must exist.

Country-by-country reporting would not resolve all these issues. It relates only to public interest companies and not to privately managed financial flows. And it would also not identify all investment flows within financial corporations not undertaken on a trading basis. These facts have to be acknowledged. However, its design, and the inclusion of trading financial flows and trades in hedging, derivative and other related financial products would add enormously to the quantity and quality of data on global trading, asset location, profit recognition, financial flows, risk related flows and intra-group trading about which remarkably little is known at present.

The result is that world trade, trade flows, capital flows, banking, shadow banking, tax haven activity and related issues would all be capable of being better regulated as a result of the data that country-by-country reporting could supply and risks could be reduced as a result.

Reduced risk means that the cost of capital within the economy falls. That means the quantum of investment can rise. Increased investment enhances productivity. The result is faster growth – or, as desirably, more sustainable economic activity. The consequence is that country-by-country reporting has

the ability to contribute significantly to well being.

7.5.2. Country-by-country reporting would tackle monopolistic practices

Monopolies arise as a result of:

- a. Regulatory capture tacitly permitting the monopoly;
- b. The availability of asymmetric information;
- c. Access to capital allowing a company to control markets;
- d. Internal economies of scale denying market access to competitors.

Monopolies impose costs on the economy and ordinary people by:

- i. Suppressing competition;
- ii. Over pricing;
- iii. Suppressing innovation;
- iv. Denying access to resources.

Country-by-country reporting can help tackle monopoly abuse by:

1. Providing data on local monopolies within multinational corporations currently unavailable;
2. Removing many of the asymmetries of data on world trade that tax havens / secrecy jurisdictions currently provide to the advantage of multinational corporations able to access them;
3. By revealing where excessive rates of return are earned;
4. By indicating where investment is, and as importantly is not, taking place;
5. By indicating which companies have control of scarce resources and where.

As a result country-by-country reporting could help create a more level playing field in world markets to the benefit of:

- Smaller businesses seeking market entry;
- Consumers;
- Governments seeking new contractual partners.

This is, therefore, another area where country-by-country reporting could yield a significant social dividend.

8. Country-by-country reporting as accounting information

8.1. Country-by-country reporting data is not corporate social responsibility information

All the benefits of country-by-country reporting noted in the previous chapter arise because:

- a. country-by-country reporting data is accounting information, and
- b. as accounting information it can be:
 - i. consistently supplied;
 - ii. audited;
 - iii. covered by accounting standards setting processes.

This is important to note. It has been argued (not least by the International Accounting Standards Board) that:

- a. Country-by-country reporting is not accounting data;
- b. It is corporate social responsibility data;
- c. CSR data cannot be included in financial statements even if derived from the general ledger of a company and entirely reconcilable with it, as country-by-country reporting data is.

This position is illogical. But what it does mean is that consideration has to be given to what the purpose of financial reporting is before suggesting how, and with what authority, country-by-country reporting data must be incorporated within it.

8.2. The purpose of financial reporting: the International Accounting Standards Board

There are a number of sources available for considering the purposes of financial reporting. The opinion of the International Accounting Standards Board is obviously of considerable significance, but is by no means to only opinion of consequence. It will therefore be considered first here, and its opinion will then be contrasted with that of others before a conclusion is drawn.

The International Accounting Standards Board (IASB) issues International Financial Reporting Standard (IFRS) that are now considered the leading authority on the information required to be included in the financial statements of multinational corporations. IFRS are legally binding in the European Union and many other countries. They do, in effect, have the status of law.

The IASB issued the first part of its Conceptual Framework for Financial Reporting in 2010^{xvii}. This explains its philosophy on accounting. It was issued jointly with the Federal Accounting Standards Board in the USA, so adding to its impact since the

USA and Japan are the only two major Western nations not adopting IFRS as yet. The Conceptual Framework says (paragraph OB2):

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

It does quite clearly, as a result, indicate that it believes that the financial reporting of private companies is intended solely to assist those engaged in financial markets.

It makes this even plainer when saying (paragraph OB 10):

Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.

These statements clearly indicate that the IASB has chosen to ignore:

- All public interest bodies that might have interest in financial reporting including:
 - Tax authorities, although tax liabilities are based on such accounts;
 - Regulatory authorities of all sorts, including environmental agencies;
 - Those enforcing company law;
 - Those with macro-economic concerns;
 - Those with planning obligations;
- The interests of the general public who do not engage with the financial markets;
- Anyone with long term considerations, since decisions in financial markets are invariably short term in nature;
- Those with concern about the broader economic impact arising beyond the financial markets as a consequence of the trading of multinational corporations, including the interests of:
 - Customers of the multinational corporation;
 - Employees of the multinational corporation, except as creditors;
 - Suppliers of goods and services to the multinational corporation;
- The special needs of emerging economies.

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In noting that the IASB has chosen to ignore a very wide range of interests when defining what it sees as the use of the general purpose financial statements produced by multinational corporations it is important to understand that it has in the process chosen to ignore the stated objectives of the International Accounting Standards Board's parent body – the International Accounting Standards Foundation - that says in its constitution that^{xviii}:

The objectives of the IASC Foundation are:

*(a) to develop, **in the public interest**, a single set of high quality, understandable and enforceable global accounting standards that require high quality, **transparent** and comparable information in financial statements and other financial reporting to help participants in the world's capital markets **and other users make economic decisions**;*

(b) to promote the use and rigorous application of those standards;

*(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, **the special needs of small and medium-sized entities and emerging economies**; and*

(d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

The emphases in bold in the statement have been added. Those highlighted items when compared to the stated objectives of the International Accounting Standards Board clearly indicate that the IASB:

- Either ignores the public interest contrary to the duty imposed on it, or believes public duty and the interest of financial markets are equivalent;
- Ignores the interests of the state sector entirely in undertaking its duties, even though its edicts have the force of law;
- Ignores all financial data that might be of use to those with a public interest in multinational corporations, in the process implying that this is either not needed or must be provided in another set of financial statements, so undermining the objective of there being a single set of financial statements supplied by a multinational corporation;
- Ignores the need for transparent data when it refuses to supply information that is available but which it deems is not needed because it considers it is not of interest to those engaged in financial markets, resulting in opacity for those other users that the International Accounting Standards Foundation recognises exist but which the IASB ignores;
- Ignores the needs of emerging economies, many of which have a particular interest in the extractive industries but relatively few of which have interest

in financial markets and where even fewer people have engagement with such activity;

- Ignores the needs of small and medium sized companies, many of whom suffer a competitive disadvantage because of the asymmetric information multinational corporations can supply.

In this circumstance it is very clear that unless pressure is brought to bear on the International Accounting Standards Board for immediate reform of its agenda, which it has taken more than a decade to produce, there is little or no chance of financial information required by the public, state, regulators and commercial interests not engaged in the financial markets being supplied by general purpose financial statements produced solely under the aegis of International Financial Reporting Standards. In that case the need for other agencies, including governments and supra-national agencies to intervene is apparent.

8.3. The purpose of general purpose financial reporting: other agencies.

The International Accounting Standards Board is not the only agency to have considered the purpose of general purpose financial reporting. Others within the accountancy profession have done so, as have supra-national agencies.

8.3.1. The UK's Accounting Standards Committee

As long ago as 1975 the UK's Accounting Standards Steering Committee, a body that can be seen as a precursor of the current International Accounting Standards Board published a seminal document entitled the Corporate Report^{xix}. That report said that published accounts should enable a user to appraise information on:

- 1. The performance of the entity;*
2. Its effectiveness in achieving stated objectives;
3. Evaluating management performance, including on employment, investment and profit distribution;
4. The company's directors;
- 5. The economic stability of the entity;*
- 6. The liquidity of the entity;*
- 7. Assessing the capacity of the entity to make future reallocations of its resources for either economic or social purposes or both;*

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8. *Estimating the future prospects of the entity;*
9. *Assessing the performance of individual companies within a group;*
10. *Evaluating the economic function and performance of the entity in relation to society and the national interest, and the social costs and benefits attributable to the entity;*
11. *The compliance of the entity with taxation regulations, company law, contractual and other legal obligations and requirements (particularly when independently identified);*
12. *The entity's business and products;*
13. Comparative performance of the entity;
14. The value of the user's own or other user's present or prospective interests in or claims on the entity;
15. *Ascertaining the ownership and control of the entity.*

It can, quite reasonably be argued that very little has changed since 1975 in this regard. Although country-by-country reporting had not been thought of in 1975 it can also quite reasonably be argued that country-by-country reporting would add, in some cases considerably, to the understanding of those issues italicised.

It is important to note that there is good evidence for suggesting that those with interest in financial statements have almost certainly not changed much since 1975. The Corporate Report identified these as:

- The equity investor group (shareholders)
- The loan creditor group (banks and bondholders)
- The analyst-adviser group who advise the above groups
- Employees
- The business contact group
- The government
- The public.

8.3.2. The UN Conference on Trade and Development

It is curious to note in contrast that UNCTAD in their 2008 report entitled “Guidance on Corporate Responsibility Indicators in Annual Reports”^{xx} said that in their opinion financial statements might be used by:

- Investors and financial institutions;
- Business partners;
- Consumers;
- Employees;
- Surrounding community;
- Civil society organizations; and
- Governments and their institutions.

The groups are defined slightly differently in each case, but the overlap is almost identical and only differs in emphasis. It seems there is widespread agreement on this issue. As, indeed, would appear to be the case when noting the thinking of the International Accounting Standards Committee Foundation, recorded above.

If that is true then country-by-country reporting is definitely accounting data needing to be included in financial statements.

8.4. Assessing the IASB’s claim that financial statements are only prepared for the use of suppliers of capital

It seems clear from these three sources, to which many more could be added, that the IASB’s claim that the data needs of the providers of capital to companies are paramount when assessing the benefits of information supplied in financial statements is straightforwardly wrong. The benefits other users derive must be considered as well, and in capacities other than as providers of capital.

In addition, the IASB claim that it need only determine whether to include data in International Financial Reporting Standards on the basis of its usefulness to the providers of capital is also wrong. The single set of accounts it must promote must, according to its own governing constitution, meet the information needs of all who make economic decisions based on the activities of corporations, and supply them with the “high quality, transparent and comparable information” they need to do so.

Those who might demand that information are, to combine the list of stakeholders noted by The Corporate Report and UNCTAD:

- Employees;
- The business contact group;

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- Consumers;
- Civil society organizations;
- Governments and their institutions;
- The public.

The very fact that country-by-country reporting is now being discussed by so many varied organisations (the International Accounting Standards Board, the Organisation for Economic Cooperation and Development, the European Union, national parliaments, development agencies, trade unions, and more) is the clearest indication that these groups have an interest in general purpose financial reporting by the world's multinational corporations.

As this report shows, what all these organisations are asking for is financial data that can only be generated from the accounting systems of the multinational corporations from whom information is being requested. There is no other way in which profit and loss account, cash flow and balance sheet information can be produced. In the circumstances the persistent suggestion made by the International Accounting Standards Board and many other accounting institutes is wrong: unless they are suggesting that duplicate accounts be prepared to disclose country-by-country reporting data (which is, of course directly contrary to the constitutional obligation of the IASB, noted above) there is no other way to supply country-by-country reporting data but by including it in general purpose financial reports of multinational corporations. It is for this reason that if the International Accounting Standards Board refuses to undertake the necessary reforms to ensure that this data is disclosed others must take the initiative in undertaking this reform in their place.

However looked at though it is obvious that:

- a. Country-by-country reporting data is accounting information;
- b. It meets needs identified by those who regulate disclosure in financial statements;
- c. Accounting standards to require its disclosure are, therefore, needed;
- d. Those standards and disclosures would fit within the regulated framework of accounting and cannot fit anywhere else;
- e. Country-by-country reporting is not and cannot be corporate social responsibility information, as is reiterated in discussion in the next chapter.

9. Why the alternatives to country-by-country reporting don't work

It is important to note that alternatives to country-by-country reporting have been suggested for the disclosure of the information needed to hold multinational corporations operating in the extractive industries and the governments to which they make payment to account for their activities. It is important to explain, albeit briefly, why these alternatives are not acceptable before moving on to discuss the regulations needed to deliver country-by-country reporting.

9.1. Corporate social responsibility

The European Commission's definition of CSR is^{xxi}:

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

The reasons why the information required on the operations of the extractive industries and its payments of tax are not corporate social responsibility issues become apparent immediately:

- The information required must be mandatorily supplied or it will not be made available. Voluntary disclosure might attract very limited disclosure by a very few companies but will never provide the information needed on an industry and country wide basis;
- The information required is not related to environmental and social concerns as such; the information required is hard financial data about financial performance.

As such the corporate social responsibility environment is wholly inappropriate for the supply of the required data.

9.2. PricewaterhouseCoopers' Total Tax Contribution

The largest firm of accountants in the world, PricewaterhouseCoopers (PWC) have developed the Total Tax Contribution (TTC) framework of which they say^{xxii}:

There is increasing pressure on companies to be more transparent about their tax policies and how much tax they pay. We suggest that enhanced transparency is important in stakeholder engagement.

Your stakeholders will be looking for more and clearer information on your tax

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affairs. They want to see high quality information in three broad areas:

- *tax strategy and risk management*
- *tax numbers and performance*
- *total tax contribution and the wider impact of taxes*

Following discussions with companies and stakeholders we've developed a suggested framework - the Tax Transparency Framework - for communicating the company's tax position in its full context. The Framework looks at potential disclosures in each of the above three sections.

PWC have expended considerable effort^{xxiii} in promoting the TTC as an alternative to country-by-country reporting, including with the International Accounting Standards Board, Organisation for Economic Cooperation and Development and European Union. However it is not an alternative to country-by-country reporting for these reasons:

- a. It is voluntary, and therefore fails completely to meet the need for mandatory disclosure of data;
- b. It is not necessarily country-by-country reporting data: it can be published on a group wide basis and therefore does not provide the information needed to ensure data is published for each hoist country with which an extractive industries multinational corporation contracts;
- c. Payment of individual taxes need not be disclosed. This means no analysis is possible and because the taxes covered exceed in scope those covered by the Extractive Industries Transparency Initiative no comparison with the EITI is possible either, unlike the country-by-country reporting disclosure noted above;
- d. No accounting data need be disclosed. This means, for example, that data on corporation tax paid might be published but no information on profit need be published and as such no data to test the credibility of the disclosures made, or their comparability, or their trend over time is available meaning that the information published has no real accounting relevance. True accounting data always requires comparison to be meaningful.
- e. No distinction is made between taxes borne by the company e.g. taxes on profits and taxes paid by the company as agent e.g. taxes deducted from staff salaries. As such the data published is in accounting and economic terms largely meaningless.
- f. The system is very expensive to implement. Country-by-country reporting data has to all be available to a company to prepare its tax returns already. As such minimal additional accounting costs should be involved and the scope of audit disclosures noted above have been restricted to ensure that audit costs are mitigated. On the other hand the PWC TTC requires that data that the company does not prepare now and which has little or no meaning for any other purpose, such as VAT expenses incurred that it cannot reclaim, has to be disclosed. This makes the preparation of TTC data both hard and very

- expensive.
- g. The data will not be audited undermining its credibility.

The PWC TTC is neither an alternative to nor even a poor substitute for country-by-country reporting as a result.

9.3. The Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) has proved to be enormously successful in achieving the following:

- a. Raising awareness of the real issues of concern within the extractive industries;
- b. Forcing some governments to become aware of these issues;
- c. Involving civil society both nationally and internationally in this process;
- d. Increasing the transparency of the extractive industries in some countries.

The existence of country-by-country reporting will not in any way remove the need for the Extractive Industries Transparency Initiative. Indeed, country-by-country reporting disclosure is designed to complement and assist the EITI process.

The Extractive Industries Transparency Initiative cannot, however, provide an alternative to country-by-country reporting. This is because:

- a. It is voluntary and mandatory disclosure is needed;
- b. The EITI is often prepared on a country wide basis meaning that multinational corporations in a country are not held to account for their actions;
- c. The Extractive Industries Transparency Initiative only operates at a national level, meaning payments that are moved out of the national domain are ignored, which ignores tax risk due to such issues as transfer mispricing;
- d. There is no consistent basis for accounting under the Extractive Industries Transparency Initiative;
- e. The EITI does not deliver any accounting data to allow assessment of the data on payments made, a weakness it shares in common with PWC's TTC;
- f. Although the reconciliation of the EITI data to receipts by governments is audited the data disclosed by companies is not always subject to an audit process, and that means that country-by-country reporting data is likely to be more reliable, which will in turn enhance the EITI process.

The Tax Justice Network is committed to the EITI, but not as an alternative to country-by-country reporting.

9.4. International Financial Reporting Standard 6

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The International Accounting Standards Board is supposedly updating IFRS 6 on the extractive industries. There are good reasons for presuming that this will not include a requirement for country-by-country reporting data. These include:

- a. Clear indication being given by the International Accounting Standards Board that stakeholder demands for country-by-country reporting would not be taken into account when deciding the issue as the IASB believes, contrary to its constitutional requirements, that they need only take into account the needs of financial markets when determining the use of financial statements.
- b. The extraordinary and protracted delay in considering this issue. Consultation on it closed in the summer of 2010 and the International Accounting Standards Board will not even consider the results of the consultation process on whether country-by-country reporting is an issue they need consider until the late 2012 at the earliest. This makes the prospect of an IFRS before 2016 unlikely.

It has to be concluded that this is not a serious attempt at addressing this issue and that alternatives have to be found.

9.5. Dodd Franks and why more could be done

The regulations enacted in section 1504 of the Dodds Frank Act^{xxiv} in the USA have not yet been brought into force so, as yet, quite what they will entail is not yet known. What the law does say is this:

Not later than 270 days after the date of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Commission shall issue final rules that require each resource extraction issuer to include in the annual report of the resource extraction issuer information relating to any payment made by the resource extraction issuer, a subsidiary of the resource extraction issuer, a subsidiary of the resource extraction issuer, or an entity under the control of a resource extraction issuer to a foreign government or the Federal Government for the purpose of the commercial development of oil, natural gas or minerals, including (i) the type and total amount of such payments made for each project of the resource extraction issuer relating to the commercial development of oil, natural gas or minerals; and (ii) the type and total amount of such payments made to each government.

This law is, of course, welcome and represented a substantial step forward in the transparency of the extractive industries but it does not encompass the scale of disclosures noted above that represent country-by-country reporting for the extractive industries. So, whilst they are mandatory (and that is, of course, welcome) they do not require:

- a. The disclosure of accounting data to assess the appropriateness of the

- payments made;
- b. Reserves data;
- c. Data on investment by the multinational corporation in a host nation.

As a result whilst Dodds Frank is a significant step forward in establishing transparency in the extractive industries by ensuring this regulation has been passed into law it represents a lowest common denominator for the disclosures needed, and does not, unfortunately, meet the needs of many users of financial statements, including investors and for that reason the country-by-country reporting data proposed in this report is considered superior to the disclosure required by this law.

9.6. Proposed 2012 EU legislation on 'country-by-country reporting' for the extractive industries

At the time of writing the European Commission and parliament are considering legislation to introduce what they call country-by-country reporting for the extractive industries.

Unfortunately what is likely to be delivered is legislation very similar to Dodds Frank section 1504 and as a result the same weaknesses apply. This is not country-by-country reporting as described in this report and accordingly the European Union has a long way to go before it meets reasonable shareholder and stakeholder expectations in this area.

10. Countering the objections to country-by-country reporting

10.1. Counter arguments exist

A number of objections to country-by-country reporting are frequently raised. For example, in May 2009 UK based publication Accountancy Age reported¹ that Barry Marshall, UK head of tax at PricewaterhouseCoopers, said

We have a common interest to improve corporate reporting of tax information. However, we do not believe the introduction of the kind of country-based reporting proposed by this campaign would meet this ambition

It is therefore important to note and respond to the potential counter arguments to country-by-country reporting. The most common are as follows:

- a. It will destroy company's competitive advantages and so harm markets;
- b. It will be hard to put in place, or to make work properly;
- c. Companies do not have or could not calculate the necessary data;
- d. Country-by-country reporting will not decrease tax avoidance / evasion because firms will use other devices;
- e. Developing countries do not have enough people or qualified people, to look at country-by-country based accounts and therefore will not increase their tax revenues as a result;
- f. Even with country-by-country reporting, how to determine the "right" level of transfer pricing is far from obvious, especially on intangibles, meaning that this will not settle the issue;
- g. Consolidated accounts are based on information provided by subsidiary companies but additional entries are made during the consolidation process, so it will not be possible to reconcile country-by-country reporting with the published accounts;

¹ <http://www.accountancyage.com/accountancyage/news/2241789/postcard-plea-big-four> accessed 14-5-09

- h. Each country already requires that all companies submit their accounts for taxation purposes and so no additional information will be secured by those authorities as a result of country by country reporting but a huge flow of information will be published that will be difficult to interpret;
- i. It will be difficult to audit country by country information;
- j. In some countries this information is already available, even for subsidiaries located elsewhere;
- k. The volume of information required to be disclosed be too great and make financial statements unwieldy;
- l. A company could be in breach of its legal obligations by publishing country-by-country reporting data
- m. The resulting data will simply not be useful – most especially to investors.

No doubt there are other arguments as well, but these appear the most important and we answer each in turn in the following paragraphs.

10.2. Country-by-country reporting will destroy company's competitive advantages and so harm markets

Business efficiency is, as economic theory teaches, dependent upon the availability of high quality information. Unless that information is available then sub-optimal decisions on everything from resource allocation within a company to capital allocation between companies will be inefficient at cost to society as a whole.

The implication of the counter-argument that country-by-country reporting is harmful to business is obvious: it may be harmful to particular businesses. It is not harmful to business as a whole. It is beneficial to have this data for business as a whole and so for society.

To accept the argument that country-by-country reporting is harmful to business would require the rejection of the economic theory on which all the logic of markets is based. We presume that is not what is planned.

10.3. Country-by-country reporting is complex

The complexity of country-by-country reporting is not under estimated: it is a real issue. However, as a matter of fact many corporations are already reporting selectively on a country-by-country basis. This is a requirement in some circumstances under International Financial Reporting Standard 8 and it was

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obligatory for holding company locations under its predecessor, International Accounting Standard 14. As such, companies are already accustomed to making geographic disclosures in their accounts, and have the proven ability to do so. As such the mechanisms to handle the technical issues already exist. No counter argument on this point is possible. In addition countries in many states, such as the USA, have to report profits and tax paid to tax authorities to claim tax credits against home country tax liabilities. As a result, increasing the granularity of disclosure by requiring this for all countries in which the company operates will not create additional technical problems. If it is already possible to identify information for accounting purposes on a selective country basis, then there are absolutely no technical reasons why this cannot be done for all countries.

10.4. Companies do not have the data to undertake country-by-country reporting

Companies must already have information on their activities in each and every country in which they operate^{xxv}. There are two reasons for saying so.

Firstly, companies must have this information to ensure they can accurately assess their taxation liabilities. Failure to do so means they cannot have proper books and records as required by the law of most countries where the parent operations of most multinational corporations are located, including the UK and USA. As such failure to hold this data would already mean that officers of the companies in question were committing offences under accounting law.

Secondly, companies must have this data because they either have separate subsidiaries for each country in which they operate or they have, for taxation purposes, what are called “permanent establishments” in those places. They therefore must have these records to comply with taxation law.

Permanent establishments are self-accounting entities for taxation purposes even if they are not separate legal liability corporations. As such, they have their own books and records and are required to make their own returns of profit and loss to the individual taxation authorities of the countries in which they operate.

As a result, companies have the necessary information to make declarations at a country level. In addition, they already have to certify that it is correct for taxation purposes, meaning that some degree of auditing or verification will have already taken place with that data.

10.5. Country-by-country reporting will not stop tax avoidance so why do it?

It would be wholly unreasonable to think that a single change in accounting disclosure could stop all tax avoidance or tax evasion. It will not. However, transfer

pricing abuse is considered one of the most important issues in tax avoidance, both by taxation authorities around the world and by tax advisers and their multinational client companies. It is also of enormous concern to developing countries and those who advise them. Indeed it has been suggested that transfer mispricing costs developing countries more in revenue loss than the entire international aid budget^{xxvi}.

It is not suggested that country-by-country reporting is a panacea that will solve all ills. There can be no doubt that some companies will seek to allocate profits in ways that appear plausible and acceptable but will actually be hiding tax avoidance when doing so. However, we do not abandon laws against murder because human beings do not seem to have stopped killing each other as a result of having them. We keep those laws because they are a deterrent, a mechanism for identifying those who continue to abuse and a means of imposing sanctions when the standards expected by society have not been adhered to.

There seems no difference between the motivation for this approach to criminal law and to the motivation for the creation of a country-by-country reporting standard: just because we know that some people will not comply, or will continue to abuse does not mean that the standard is not in itself desirable; nor does it mean it will not create an effective mechanism for identifying abuse or assisting the imposition of sanction on those who perpetrate it. As a result, the standard remains desirable even if it can never be wholly effective.

It is also incredibly important to note that tax abuse is only one of very many issues that country-by-country reporting is expected to address. It also has benefit to those concerned with trade issues, labour issues, corruption, corporate social responsibility, the management of geopolitical risk in an investment context amongst many others. Consequently, to suggest that it is not needed because it cannot solve all taxation problems is to argue from a perspective that ignores its other benefits.

10.6. Developing countries do not have the resources to use country-by-country reporting data

The argument that developing countries do not have enough people or enough qualified people to look at country-by-country based accounts thereby implying that country-by-country reporting will not help increase their tax revenues is deeply patronising, probably wrong, and regardless is able to be remedied through the provision of technical assistance and resources that are required by developing countries. Such assistance would allow these countries to create the necessary capacity within their taxation authorities to tackle transfer-pricing abuse. Moreover, as country-by-country reporting will reduce the cost of tackling transfer-pricing abuse, it would actually aid (not hinder) the efforts of tax authorities in developing

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countries benefit by reducing the scale of the support that they require. As such, this argument does not withstand scrutiny.

10.7. Country-by-country reporting will not stop transfer pricing abuse

Indisputably, country-by-country reporting alone will not completely solve the problem of how to create “correct” transfer prices. It would be completely unrealistic to expect it to do so. However, it is also important to note that in practice transfer prices are frequently negotiated to achieve a fair apportionment of profit - thus producing a result that in the end is little different from formula unitary apportionment – a fact that is not always acknowledged.

In that case whilst country-by-country reporting does not say what the “correct” transfer price should be, it does provide some clear indication of whether that objective has been achieved. In so doing, country-by-country reporting will be an incredibly important tool for a variety of groups: whether for the companies themselves, who can use it to defend their position; for tax authorities, who can use it to inexpensively undertake initial audits of transfer pricing; or for civil society, who want to know who do and who do not appear to be abusing the rules.

There is a further return for investors who want to appraise the risk they might face from any particular investment as a result of a company’s compliance or non-compliance with regulation. No investor will ever have access to an individual company’s transfer pricing information: country-by-country data provides a good proxy measure of likely compliance both in this, and other tax areas. As a proxy measure of tax risk, the reporting data will be invaluable.

10.8. Country-by-country reporting won’t reconcile with underlying data of subsidiary companies in extractive industries host nations

It is true that adjustments are made to the individual subsidiary company accounts when consolidated financial statements are prepared. This fact is, however, assumed to be a matter of interest, and not a matter that should be disguised or go undisclosed. If the consolidated accounts do not reflect the transactions actually undertaken by a group of companies, it would seem to be important that the shareholders be aware of this fact. Consequently, this should not be a reason for suppressing the information.

It is also important to note that since at least 60% of world trade is undertaken on an intra-group basis but not one dollar, pound, yen or euro of this is currently reported in the group consolidated accounts of the world's multinational corporations, there is already a substantial amount of missing accounting information. This missing information – which will be provided by country-by-country reporting – is important for the management of the world economy. In the

process of reconciling individual country-by-country statements with group consolidated accounts, intra-group trade will become visible. Therefore the disclosure of this information would benefit all people by increasing the effective management of worldwide trade.

This reconciliation statement is not considered to be a weakness within country-by-country reporting: it is considered to be perhaps the most important piece of information that the reporting would make available. For example: if many of the banks that required national government support during the autumn of 2008 had reported their affairs on a country-by-country basis, then those governments would have had a better basis to appraise the inherent risk within each company's structure – potentially averting the ensuing credit crisis thereby saving a substantial amount of public money.

10.9. Since companies already have to submit tax returns country-by-country reporting will provide nothing new for tax authorities

Of course it is true that most countries do already require companies operating within their domain to submit their accounts to the local tax authority. However, there are notable exceptions to this rule. For example, in both Jersey and the Cayman Islands there is no tax on corporate profits and therefore no company is required to submit a tax return. Moreover, since corporations are not required to report in jurisdictions like Jersey and the Cayman Islands, the governments of those places do not automatically have access to the accounting information of corporations that are located there. Consequently, nobody else is able to obtain that information either. Therefore, if a local company located where corporation tax is payable trades with a related group company located in a place like Jersey or the Cayman Islands, and if the group of companies is not willing to provide the accounts of its subsidiaries in those tax havens, it is nearly impossible for a taxation authority wishing to enquire about transfer prices to secure information about the tax haven side of the transaction.

To therefore argue that country-by-country reporting does not provide additional information to local tax authorities is, as a matter of fact, wrong. Country-by-country reporting may be the only realistic and cost effective way in which they can obtain information on trade with certain locations where accounts do not need to be put on public record.

10.10. Country-by-country reporting data would be hard to audit

As a matter of fact, auditors have for many years reported upon country specific data included in the accounts of multinational corporations because this information has been disclosed under the requirements of International Accounting Standard 14. This standard was always geographically based – a feature that is still

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partly true of its replacement standard, International Financial Reporting Standard 8. As a result, it cannot be said that country-by-country information cannot be audited.

That said, it is undoubtedly true that country-by-country reporting will make the audit of some multinational companies more complex and more expensive and for which reason allowance to reduce costs has been made in the proposals in this report.

10.11. The data required from country-by-country reporting is already available

It is accepted that some countries require more information to be available about the subsidiaries of multinational corporations registered in their domain than do others. For example, France appears to require that the accounts of subsidiary corporations of French corporations be available for inspection on public record in France; in this respect it is almost alone in the world. Both the UK and USA, in different ways, expect their multinational corporations to place on public record the names and registered locations of the subsidiaries that they own, but neither requires that their accounts be available for inspection. If a company is incorporated in a location such as the Isle of Man – a phenomenon that is becoming increasingly common with companies registered on the UK's AIM stock market – no such requirement exists. Ireland also has a lax approach regarding the disclosure of information and is becoming an attractive location for the registration of holding companies.

It is precisely because of this variable access to information that a universal standard for disclosure is required. It appears perverse to argue that just because some countries have better practices than others, those who take advantage of this in order to hide information should benefit as a result.

10.12. Country-by-country reporting data would be too bulky to publish

It is true that country-by-country information could be of significant volume. However, this is no reason to not publish it.

First of all, many corporations already send summarised financial statements to a majority of their private shareholders. These summary statements would not be required to include country-by-country data; instead it would be available on request.

Second, the accounts of almost all multinational companies are now available online, and this is undoubtedly the most common way in which stakeholders access this information. Paper need not be printed as a result.

Third, because of the recognition of this general fact, new standards for the provision of corporate accounting data online are being created and should be in operation within a year or so. That means that online data will then be available to a universal standard that will allow it to be downloaded and manipulated in spreadsheets and other programs. Thus making calculations of the sorts noted in this report would be a relatively easy task that would no longer require any transcription.

Put simply, the accounting profession has recognised that the complexity of global companies requires substantial information to be published. Some accounts are already 400 or more pages long. This is necessary to provide users with all of the data that they require to assess information and interrogate it as they wish. If anything, this volume of data provides additional incentive for the provision of country-by-country reporting, and not the opposite, as country-by-country reporting cuts a path through the complexity to provide local data to those for whom this data is a concern.

10.13. A company could be in breach of its legal obligations by publishing country-by-country reporting data

It has been suggested that a company might be in breach of its legal obligations in a host country within the extractive industries if it were to publish accounting information with regard to that jurisdiction when the MDA that territory required confidentiality for information relating to the contract.

This argument is not accepted for three reasons. Firstly, it will not be the local company that is publishing this information. It is the parent company that will be required to publish this information, and that parent company will, by definition, be in another jurisdiction. A contract agreed in one location cannot restrict the right to disclose accounting data required in another jurisdiction.

Secondly, as has been argued by academic legal research promoted by Publish What You Pay in the USA, such confidentiality clauses cannot be enforced outside the jurisdiction to which they relate, and cannot apply to parent companies of subsidiaries in those locations, particularly when the information disclosed will be on a consolidated country basis.

Thirdly, to acquiesce to this would make country by country reporting voluntary, meaning that the most egregious states, which are those most likely to enforce secrecy most rigorously and which are consequently those where there is most likely to be a need for information to curtail abuse will be those most likely to be exempt from disclosure. This makes no sense at all, and must be firmly resisted, since the legal basis for doing so clearly exists.

10.14. The resulting country-by-country reporting data will simply not be useful

This argument is being put forward by the management of multinational corporations. They seem to be suggesting that:

- a. Users of accounts will not understand country-by-country reporting data, despite it being in similar format to all other financial reporting;
- b. There are no civil society users of accounts;
- c. Tax authorities, regulators and others never look at or comprehend accounts;
- d. Investors will not use data if it is made available to them but will instead choose to ignore it when making their decisions.

None of these arguments is plausible. As this report has shown, country-by-country reporting data has considerable potential value in use. It is likely that when live data is available very many more uses will be found.

The least plausible argument of all to oppose its provision is to suggest that no one will use the data. The same argument could be made by the management of multinational corporations that no one uses existing accounts, and we know that is not true. In that case this argument has to be seen for what it is, which is a claim that management should be trusted with the stewardship of assets without consequent accountability.

It is exactly that logic that country-by-country reporting opposes. Country-by-country reporting assumes multinational corporations can do good in the world, but that they also impose risk. Getting that risk reward ratio right requires judgment, by management and by others who wish to determine whether management has exercised sound judgment. In very many ways, as noted in this report, country-by-country reporting can help that process of judgment and review and so contribute to the process of stewardship that is at the core of good management.

And that is why we need country-by-country reporting.

11. About the Tax Justice Network

TJN is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation.

We work to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens.

Our objective is to encourage reform at the global and national levels. We are not aligned to any political party.

Our network includes:

- Academics;
- Accountants;
- Development organisations and NGOs;
- Economists;
- Faith groups;
- Financial professionals;
- Journalists;
- Lawyers;
- Public-interest groups;
- Trade unions
- Others

Our founding objectives are:

- to raise the level of awareness about the secretive world of offshore finance;
- to promote links between interested parties around the world, particularly involving developing countries;
- to stimulate and organise research and debate;
- to encourage and support national and international campaign activity.

In particular we aim to:

- promote more local campaigns for tax justice, especially in developing countries;
- provide a medium through which tax justice issues can be promoted within multilateral agencies such as the United Nations, the World Bank, the International Monetary Fund [IMF], the Organisation for Economic Cooperation & Development [OECD] and the European Union.

12. About the author

Richard Murphy (54) is a UK chartered accountant. He was senior partner of a practicing firm and director of a number of entrepreneurial companies before becoming one of the founders of the Tax Justice Network in 2002. He now directs Tax Research UK and writes, broadcasts and blogs extensively, the latter at <http://www.taxresearch.org.uk/Blog/>.

Richard created the country-by-country reporting concept in 2003 and has been credited with creating much of the debate on tax gaps in the UK and Europe. He also defined the term 'secrecy jurisdictions', now widely used in debates on offshore.

Richard has been a visiting or research fellow at a number of UK universities and is joint author of 'Tax Havens, The True Story of Globalisation', Cornell University Press 2010 and sole author of 'The Courageous State', Searching Finance, 2011. He is now working on a new book entitled 'The Joy of Tax'.

13. Endnotes

ⁱ <http://visar.csustan.edu/aaba/ProposedAccstd.pdf>

ⁱⁱ <http://www.bloomberg.com/news/2011-09-15/ubs-may-have-unprofitable-quarter-on-unauthorized-trade-s-2-billion-loss.html>

ⁱⁱⁱ <http://www.guardian.co.uk/business/2012/may/10/jp-morgan-market-loss-hedging>

^{iv} <http://www.bbc.co.uk/news/business-18213848>

^v http://www.cbi.org.uk/media/1456727/john_cridland_speech_on_tax_and_british_business.pdf

^{vi} <http://eiti.org/eiti/principles>

^{vii} *ibid*

^{viii} <http://www.publishwhatyoupay.org/en/mission>

^{ix} http://en.wikipedia.org/wiki/Dutch_disease

^x <http://www.iasplus.com/standard/ifrs06.htm>

^{xi}

http://www.accountancymagazine.com/croner/jsp/Editorial.do?contentId=1554138&linkName=UK+GAAP&Failed_Reason=No+BVCookie+present+to+retrieve+the+session.&Failed_Page=%2fjsp%2fEditorial.do&BV_UseBVCookie=No

^{xii} <http://www.taxresearch.org.uk/Documents/WoERevisedVersion.pdf> accessed 15-11-10

^{xiii} See <http://www.taxresearch.org.uk/Documents/500000Final.pdf> for examples

^{xiv} Michael Durst, who from 1994 to 1997 served as Director of the U.S. Internal Revenue Service's Advanced Pricing Agreement, quoted in http://www.taxjustice.net/cms/upload/pdf/Spencer_120524_OECD_.pdf

^{xv} http://www.tackletaxhavens.com/Cost_of_Tax_Abuse_TJN_Research_23rd_Nov_2011.pdf

^{xvi} See http://en.wikipedia.org/wiki/Uncertainty_principle

^{xvii} Available from <http://www.ifrs.org/Current+Projects/IASB+Projects/Conceptual+Framework/Conceptual+Framework.htm>

on payment of a fee

^{xviii} <http://www.iasplus.com/resource/2009revisedconstitution.pdf>

^{xix} <http://www.ion.icaew.com/ClientFiles/6f45ef7e-1eff-41ff-909e-24eeb6e9ed15//The%20Corporate%20Report2.pdf>

^{xx} http://www.unctad.org/en/docs/iteteb20076_en.pdf accessed 15-8-08

^{xxi} http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm

^{xxii} http://www.pwc.co.uk/eng/issues/communicating_your_total_tax_contribution.html

^{xxiii} See for example

http://uk.sitestat.com/pwc/uk/s?ukws.eng_publications.pdf.tax_transparency&ns_type=pdf&ns_url=http://www.pwc.co.uk/pdf/tax_transparency_nov10.pdf

^{xxiv} http://resources.renewwatch.org/sites/default/files/Dodd-Frank%20bill_Sec%201504.pdf

^{xxv} It should be noted that some companies dispute this: they say that they organise their internal reporting on the basis of product lines and not on a geographic basis. This may be true, but even if that is their basis of internal commercial reporting they still have to re-sort that data on a country basis for taxation reporting purposes. As such, the claim that they do not have information on a geographic basis appears very difficult to believe, unless they are suggesting they do not comply with the requirement that they report their profit on an appropriate basis to all taxation authorities who have interests in their affairs.

^{xxvi} See 'Death and Taxes' Christian Aid 2008