Key Financial Secrecy Indicators
6: Country-by-Country Reporting

What is being measured?

This indicator measures whether the companies listed on the stock exchanges or incorporated in a given jurisdiction are required to publish financial reporting data on a country-by-country basis. A full credit is awarded if country by country reporting[1] is required by all companies (which is not yet the case). A 50% credit is awarded if a country requires limited country by country reporting along the lines of the principles elaborated by the Extractive Industries Transparency Initiative (EITI)[2]. These principles prescribe that all payments to governments made by companies active in the extractive sector must be published.

In principle, any jurisdiction could require all companies incorporated under its laws (including subsidiaries) to publish in their accounts information on their global activity on a country-by-country basis. In practice, however, no jurisdiction does this today, so as a minimum indication of accountability we suggest that jurisdictions should require companies listed on their stock exchanges to publish accounts on this basis. While such a requirement is narrower in scope than a full blown country by country reporting standard applied to all registered companies, it nevertheless indicates a first step in the right direction. Such reporting requirements can be implemented either through regulations issued by the stock exchange or by a legal or regulatory provision enacted by the competent regulatory or legislative body.

The main data source we used for this indicator was the TJN-Survey 2011 and additional information available at www.revenuewatch.org and at www.eiti.org.

KFSI 6 - Country-by-Country Reporting		
Conditions	**Assessment**	**Sources**
(1) Country-by-country reporting required for corporations active in the extractive industries (EITI) (at least for those listed) (2) Country-by-country reporting required for all corporations (at least for those listed)	(1) = 0.5 credit points (2) = 1 credit point	• TJN Survey 2011 • www.eiti.org • www.revenuewatch.org

Why is this important?

Country by country reporting[3] requires multinational corporations to disclose vital information in their annual financial statements for each country in which they operate. This information would comprise its financial performance, including:

a) Sales, split by intra-group and third party

b) Purchases, split the same way

c) Financing costs, split the same way

d) Pre-tax profit

e) Labour costs and number of employees.

In addition, the cost and net book value of its physical fixed assets, the gross and net assets, the tax charge, actual tax payments, tax liabilities and deferred tax liabilities would be published on a country by country basis.

Current report requirements are so lacking in transparency that it is almost impossible to find even such basic information as which countries a corporation is operating in. It is even more difficult to discover *what* multinational companies are doing in particular countries, and how much they are effectively paying in tax in any given country. The consequence is that corporations can minimise their global tax rates without being successfully challenged anywhere[4]. Large scale shifting of profits to low tax jurisdictions and of costs to high tax countries ensues from this lack of transparency.

The means used for profit shifting are primarily based on transfer mispricing, internal financing or reinsurance operations, or artificial relocation and licensing of intellectual property rights. These activities are taking place within a multinational corporation, i.e. between different parts of a related group of companies. Today's financial reporting standards allow such intra-group transactions to be consolidated with the normal third-party trade in the annual financial statements. Therefore, a corporation's international tax and financing affairs are effectively hidden from view.

As a consequence, tax authorities don't know where to start looking for suspicious activity, and civil society doesn't have access to reliable information about a company's tax compliance record in a given country in order to question the company's tax policy or its corporate and social responsibility and make enlightened consumer choices.

Making this information available on public record would significantly enhance the financial transparency of multinational corporations. Investors, trading partners, tax authorities, financial regulators, civil society organisations, and consumers would be able to make better informed decisions on the basis of this information. Investors, for instance, could evaluate if a given corporation piles up huge tax liabilities or is heavily engaged in conflict-ridden countries. Tax authorities could make a risk assessment of particular sectors or companies to guide their audit activity by comparing profit levels or tax payments to sales, assets and labour employed.

While much narrower in scope, the Extractive Industries Transparency Initiative (EITI) has succeeded in raising awareness of the importance of transparency of payments made by companies to governments. If a country voluntarily commits to the EITI, it is required after a transitional period to publish annually details on the activities of extractive companies active in the country. These details include all the payments the government received by companies active in this sector. EITI also requires the companies to publish this information so that discrepancies from both reporting parties can be questioned by civil society. Mismatches can be indicative of illicit activity such as bribery or embezzlement.

It is of particular interest also because it may reveal for the first time in a given country information on tax payments made by companies to governments. Without such information, electorates, civil society and consumers can hardly make informed choices. It may help trigger further questions which could result in greater transparency, such as full country by country reporting.

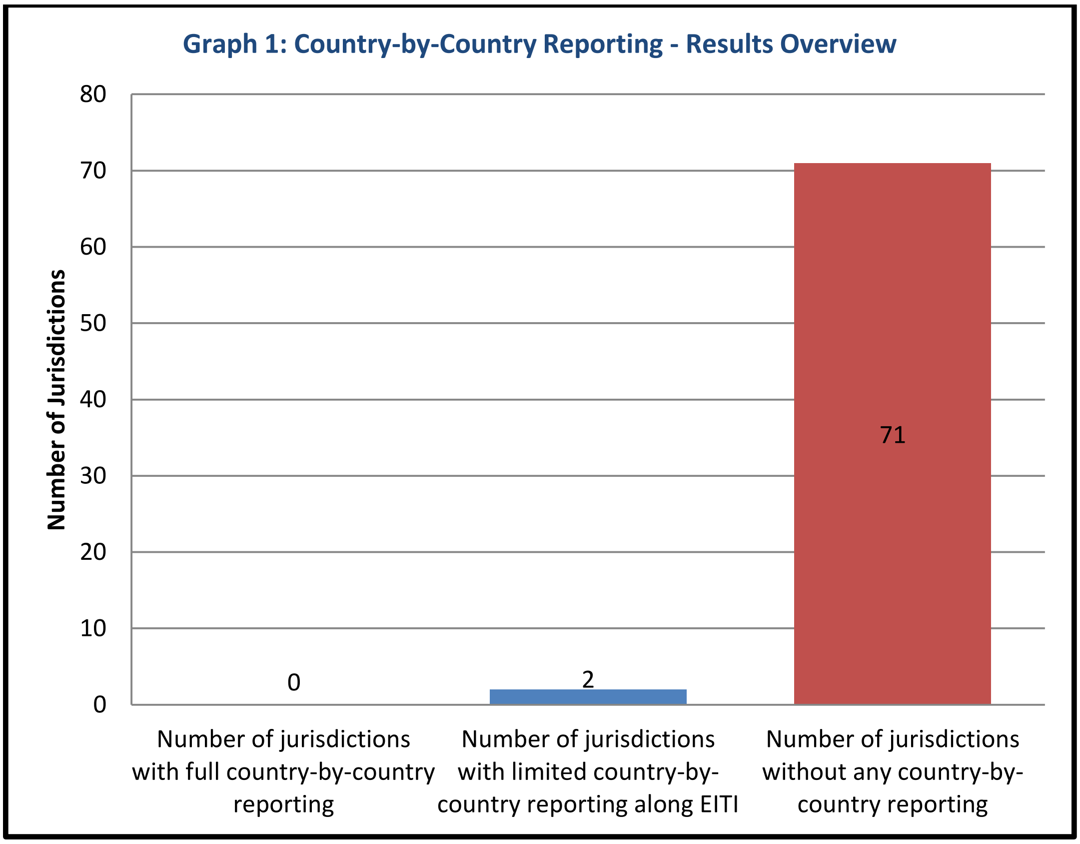
What are the crimes that might hide behind the absence of country by country reporting?

Tax evasion by multinational corporations through profit shifting (transfer mispricing), hiding the payments of bribes, market manipulation through oligopolies, and more besides might hide behind the opacity that a lack of country by country reporting obligations provides.

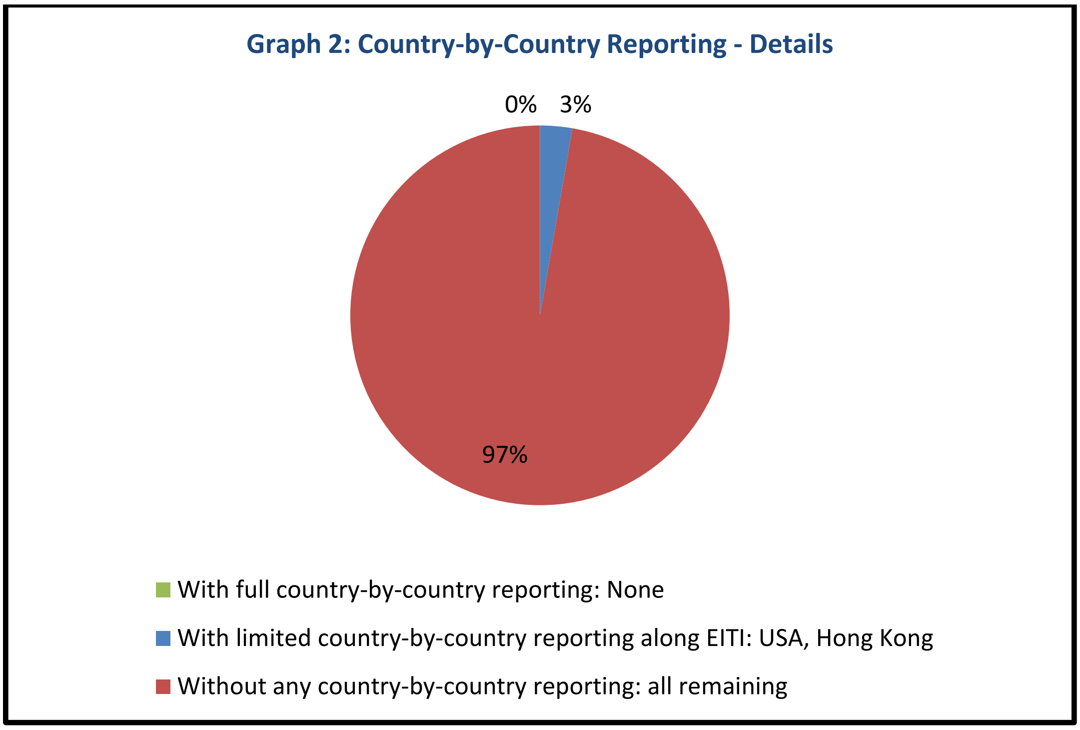
Results Overview

Table 1: Country-by-Country Reporting - Overview

Number of jurisdictions with full country-by-country reporting	0
Number of jurisdictions with limited country-by-country reporting along EITI	2
Number of jurisdictions without any country-by-country reporting	71



Results Detail



[1] http://www.taxresearch.org.uk/Documents/CBC.pdf; 16.6.2011.
[2] The EITI criteria require the “regular publication of all material oil, gas and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner”, in: http://eiti.org/eiti/principles (20.05.2011).
[3] http://www.financialtaskforce.org/wp-content/uploads/2009/06/Final_CbyC_Report_Published.pdf; 16.6.2011.
[4] For instance: http://www.bloomberg.com/news/2010-10-21/google-2-4-rate-shows-how-60-billion-u-s-revenue-lost-to-tax-loopholes.html; 16.6.2011.