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How To Make Multinational Companies More Transparent

Richard Murphy

The campaign for Country-by-Country (CbC) reporting by multinational corporations (MNCs) arose from two initiatives. First, the Tax Justice Network (in its very early days) wanted to get disclosure of which MNCs were using tax havens and were abusing transfer pricing. I wrote a draft International Financial Reporting Standard for discussion, which was published by the Association for Accountancy and Business Affairs (AABA) in 2003. Then, in 2004, I started advising the Publish What You Pay (PWYP) coalition on the extractive industries (that is, industries based on minerals like oil) and, more specifically, the Extractive Industries Transparency Initiative (EITI). My report, 'Making it Add Up', was published by Global Witness and Save the Children UK in February 2005, highlighting problems with EITI. It suggested, among other things, that:

> *companies in each country [should] publish all their payments to government, in a full and timely manner, which allows for meaningful comparison.*

PWYP then asked me to develop an accounting standard for the Extractive Industries. When it became clear that this avenue for progress was closed for the time being, PWYP and TJN made a submission to the IASB (International Accounting Standards Board, a private Delaware corporation) in March 2006. Eighty organisations supported our submission.

What we're calling for

We are calling for standards that would go beyond the extractive industries and would embrace all companies. These standards would require each MNC to report:

1. In which countries it operates;
2. What it is called in that location;
3. What its financial performance is in each country, identifying third party and intra-group trade, and labour-related information;
4. How much tax (and other benefits) it pays to government locally as a consequence.

This information should be reported for all territories, without exception, where the multinational corporation operates. Anything less will not do. (This does not require every country to agree to accept the standard, as the requirement would be imposed at an international level.)

Why this is important now

In November 2006 the IASB, which is trying to get its standards to converge with U.S. accounting standards, issued its latest standard, known as IFRS-8. They had clearly ignored our submission and we felt it was a backwards step: it not only did not incorporate a CbC requirement, but also moved away from clear geographic reporting and gave huge discretion to management on how to report financial data. We think the old standard, IAS-14, is better.

However, the opportunity to lobby on this increased recently, because the European Commission is reviewing a proposed accounting standard that could be amended to make such reporting mandatory for all European based companies. This opens an opportunity to put pressure on the EU to reject the IASB standard, revert to the old one and go back to basics.

Various EU parliamentarians have expressed concern about IFRS-8, and now we are getting significant support from UK and international financial institutions: the UK's National Association of Pension Funds and the Investment Management Association are behind us, and see the merit of our arguments. Internationally, the International Corporate Governance Network, with $10 trillion under management, has expressed reservations about IFRS-8 in a letter signed by Calpers, America's largest pension fund. (The link with investors does not guarantee victory, but it adds considerable institutional weight to the arguments, and suggests that we are raising questions of broad concern.) Many people and organisations shy away from things like this, which may seem remote and arcane. Believe me, they matter. Europe must have the right to reject an IFRS, or democratic control of reporting passes to a privately owned Delaware corporation substantially funded by the Big Four accountants. Accounts should be about more than the question of whether to buy or sell shares (the IASB's definition of 'decision usefulness') but should also be about accountability and stewardship. The benefits are

hard to quantify, but we believe that CbC reporting could potentially benefit poor countries as much as all foreign aid, and it could substantially bolster democracy and governance in rich and poor countries alike. Here are a few more reasons to be concerned:

1. **Accountability matters.** A company cannot be accountable unless it can be identified. This means that the names an MNC uses locally must be on public record. Too often they are not. CbC reporting names and identifies local subsidiaries.
2. **Corporate governance matters.** Many recent corporate scandals have involved offshore subsidiary companies. These are becomingly increasingly common, but it is recognised that managing them creates severe governance issues for MNCs, resulting in increased risk for shareholders and others.
3. **Corporate social responsibility (CSR) matters.** CSR is about the relationship between a company and its host community. The host community should know the companies operating locally. CbC reporting provides that information.
4. **Corruption matters.** The EITI, for example, seeks to hold companies in the extractive sector to account for tax payments they make, and the governments that receive those payments to account for what they do with them. Many MNCs resist disclosing information because of competitive pressure, contractual obligations and local political opposition. By making the standards international CbC would overcome these objections, enhancing transparency.
5. **Development matters.** Aid can sometimes help poor countries develop, but it is not a sustainable answer. Local declaration of economic activity by MNCs, with consequent accountability for taxes paid, could help break this cycle and create independent, accountable governments much better able to raise their own taxes.
6. **People matter.** MNC accounts include statements on the number of employees a company has and their aggregate remuneration. CbC would require this statement for every country, providing invaluable information on labour conditions worldwide.
7. **Tax matters.** MNCs have more opportunity than any other group to plan their tax affairs. They can shift profits from state to state, artificially, to find the lowest overall bill. CbC discloses companies' profits and taxes in each country where they operate, so they can be held accountable for what they do and don't pay. If this were tackled, enough tax might be collected to pay for the Millennium Development Goals.

8. **Trade matters.** 60% of world trade is intra-group trade across national boundaries between companies under common ownership or control. Existing MNC accounts encourage transfer mispricing by hiding this trade from public view. CbC shows it all.

9. **Transparency matters**. In many countries a corporation does not have to publish its accounts: so what it does in that country is not a matter of public record. What MNCs do has enormous implication for the wellbeing of the world. CbC overcomes this problem, by putting all MNC activity 'on the record.'

10. **Where you are matters.** Some countries are unstable, politically unacceptable, or subject to sanctions. If a company trades there, shareholders and civil society should know. Where you are matters. Currently, companies can hide where they operate. CbC would expose them to transparency.

March, 2007