The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

By email:

Mr Michel Barnier
Internal Market and Services Commissioner
European Commission
BERL 10/034
B – 1049 Brussels
Belgium

22 December 2010

Dear Sir

European Commission Green Paper – Country by Country Reporting by Multinational Companies

We are pleased to submit our comments on the above consultation.

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

[Note: this consultation was completed online only as included within the Appendix].

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

Robin Freestone
The Hundred Group – Investor Relations and Markets Committee

Appendix 1

Question 1. Would it be useful to have common EU rules on the disclosure of financial information on a country-by-country basis?

The Accounting Directives already require issuers to identify subsidiaries, jointly controlled entities and associates in other countries. There is, however, no consensus on what further financial data, if any, should be disclosed on a country-by-country basis. This could include information such as: the financial performance in each country including information on intra-group transactions, pre-tax profit, tax information on a country-by-country basis, etc

In replying to this question, please consider: (i) whether the existing disclosure requirements (e.g. publication of accounts by subsidiaries of multinationals in third countries concerned) provide sufficient transparency; (ii) whether there is scope for disclosing information only to public authorities (which could consolidate such information on a "country-by-country" basis before making it public); (iii) this transparency requirement in the context of corporate social responsibility; (iv) any possible negative consequences for the EU economy (e.g. impact on security of energy supply in the EU; competitive disadvantages for EU companies which may be disclosing commercially sensitive information, increased reporting costs); and (v) any possible positive/negative repercussions for corporate governance as a consequence of applying higher transparency standards.

No.

In our opinion the requirements over disclosure of financial information is best regulated through a single global accounting standards setting agency, specifically the International Accounting Standards Board (IASB). The IASB has a well established, tried and tested global platform with an associated depth of knowledge which ensures that, when considering the needs of users, appropriate disclosure requirements are considered. The IASB has approved, and the EU has endorsed, IFRS 8 *Segmental Reporting* which provides the users of financial statements with relevant, appropriate information on how a business is managed and includes a requirement to disclose revenues from customers located in any individual country, if that total is material.

We strongly feel that it would be inappropriate for a regulatory authority to require additional disclosures within this forum. At best this would result in a disparity from countries operating in other areas of the world, however of more concern is the real potential for this to put European companies at a competitive disadvantage.

We understand and empathise with the rationale for the demand for information on a country-by-country basis in an attempt to achieve transparency, particularly if it can provide insight in to the fiscal receipts for some of the world's developing economies.

As a representative body of some of the UK's most international businesses we have broad ranging experience of investing in and operating in these jurisdictions. We know first-hand the real benefit that international investment can bring, if carried out responsibly, and the damage it can cause if it is not. We support the efforts being made to improve responsible investment and improving transparency thereof, including, in the UK, the Bribery Act which becomes active legislation in 2011, the work of the Integrated International Reporting Committee (IIRC), and the importance of Corporate Social Responsibility (CSR) reporting to name but a few.

However, we do not believe that providing an increase in financial information on a country-by-country basis will achieve the result desired. Of particular limitation to the needs of such a campaign is the nature of Financial Statements in that they are produced annually and include retrospective information. In addition information requires knowledge and understanding of a group's operating structure in order to provide meaningful interpretation - country specific revenues are particularly dependent on intragroup transactions which are carefully monitored by transfer pricing regulations to ensure international parity. In addition we are concerned that disclosure along the lines proposed could lead to commercially sensitive information being disclosed which would be inappropriate.

We note that currently some of our members do provide, voluntarily, disaggregated information in the narrative section of their annual report, in independent corporate social responsibility reports and through their websites and other corporate publications. These disclosures are as a result of the relationship held between companies and their investors. The transparency requirements of various pressure groups work with market forces to make companies consider very carefully what the appropriate level of CSR reporting is for their situation and industry. We do not believe that further regulation is required.

In addition we would highlight some of the concerns raised by investors and users of financial statements that, whilst preparers provide a large volume of data, this in itself does not necessarily mean it is informative and appropriate. We are concerned that increasing regulation is providing cluttered, complex information which can serve to obscure the underlying message of the performance of a group and the risks involved in investing in it. We believe that this must be the first and foremost purpose of the financial statements.

Question 2. Would the disclosure of financial information on a country-by-country basis by multinational companies be meaningful to investors of the company concerned?

In replying to this question, please consider: (i) whether there are risks inherent to multinational companies' activities that could be identified through the disclosure of financial information on a country-by-country basis, and (ii) any possible positive/negative repercussions for corporate governance as a consequence of applying higher transparency standards. If yes, please specify the type of financial information that would be useful (e.g. intra-group transactions, turnover, pre-tax profit, tax expenses on a country-by-country basis, etc.), for which purpose, and how such disclosure could help in achieving the objective of being meaningful to investors. Please consider whether additional specific information would be needed for companies operating in certain sectors (e.g. financial services, extractive industry, other)

No, we do not believe that this is the case.

As outlined in our response to Question 1 our experience is that our relationships with investors are open and transparent. We have not identified any significant trends for individual investor requests for this information, although individual companies may have received and responded to such requests resulting in the voluntary disclosures produced to date. We note ongoing campaigns by interested parties, such as Christian Aid in the UK, and continue to work with them to inform that relationship as we do with all other interested parties.

In addition we note that, if material inter-company taxation risks exist in a particular company, such as in relation to transfer pricing matters, these are already disclosed under the requirements of IFRS. We believe that these disclosures already provide sufficient, appropriate information on risks inherent to multinational companies' activities.

Question 3. Would the disclosure of financial information on a country-by-country basis by multinational companies be useful for the purposes of improving tax governance at a global level?

Please explain the type of financial information that would be useful (e.g. intra-group transactions, turnover, pre-tax profit, tax expenses on a country-by-country basis, etc.), and how such disclosure could help in achieving the objective.

No.

In our view the primary purpose of the financial information disclosed by companies is for communicating with our stakeholders. Whilst the scope of our stakeholders includes taxation authorities, financial reporting is not and should not be designed to replace the extensive liaison which exists between taxation authorities and the companies that operate within its jurisdiction.

We would invite the Commission to consider, instead, if further work could be done to support taxation authorities in some of the globally developing nations if an improvement in global tax governance is the ultimate aim. We strongly believe that international investment is supported by an open, consistently applied, stable taxation platform. Businesses need confidence, for example, that investment decisions they make in the short term will provide them with the returns they expect in the long term. A healthy, robust and well positioned fiscal policy will encourage investment. One which is beleaguered by uncertainty or corruption will not. In our opinion tax governance at a global level should be more appropriately addressed rather than through financial reporting.

Question 4. Would the disclosure of financial information on a country-by-country basis by multinational companies active in the extractive sector (e.g. minerals, oil, natural gas, etc.) be useful in order to improve domestic accountability and governance in natural resource-rich third countries?

Please explain the type of financial information that would be useful (e.g. intra-group transactions, turnover, payments to governments, pre-tax profit, tax expenses on a country-by-country basis, etc.), other narrative information on activities rather than figures, and how such disclosure could help in achieving the objective.

No. As stated in our response to Question 1, we sympathise with the objectives of those who seek to require disaggregation on a country-by-country basis in the financial statements of multi-national companies. However, we question the appropriateness of mandating country-by-country disclosures within general purpose financial statements, which are prepared primarily to meet the information needs of investors.

Question 5. Would it be useful if financial information on a country-by-country basis by multinational companies would be presented according to predefined standards or formats?

In replying to this question, please consider, in the absence of existing international accounting standards on this issue: (i) how could this objective be achieved (e.g. disclosure in the annual management report); (ii) at what level should the data be comparable (e.g. at the level of the multinational "company", for the benefit of investors; at the level of the "country", for the benefit of other stakeholders; other?); (iii) who could prepare any common reporting format of this kind (e.g. the IASB, ESMA, the OECD) and what would be the advantages of the latter bodies compared to the IASB.

Yes, we believe that an International basis for reporting would be constructive and appropriate. In consideration of the need for a truly international approach we would therefore look to the IASB and the work of the IIRC to address any additional requirements on a country-by-country basis.

In particular, the IASB is a well regarded international organisation with a mandate for the production of accounting standards and an established due process to ensure that these are well considered and operable in practice. The IASB is aware of the issues surrounding country-by-country reporting and is considering whether to extend the requirement for country specific disclosure within international accounting standards. Within this context we do not see the need for any other organisation to independently pursue this specific corporate reporting topic.

We would not endorse a European specific requirement as we believe that this would undermine the value of a single International approach and could result in European Issuers being put in an disadvantageous position both in terms of competitive information and in terms of regulatory burden.

Question 6. If country-by-country reporting were to be considered useful, what kind of multinational companies would usefully be targeted?

In replying to this question, please consider some of the following issues: (i) the benefits that disclosure by all companies may bring; (ii) the compliance cost; (iii) the extent of a company's activities in third countries (if limited extent, disclosing financial information may be prejudicial to the business position of the company); and (iv) the possible consequences for the competitiveness of EU capital markets.

None. We do not consider it appropriate to target particular companies or industries to mandate country-by-country reporting. As set out in our answer to Question 5 any further requirements should be endorsed and pursued by an International body to embed requirements appropriately.

Question 7. Please provide information on the cost that you estimate that the introduction of country-by-country disclosure requirements could entail.

Costs are likely to be significant, however these will vary with the level of requirements that might be introduced, the regularity of reporting and the level of independent verification that would be required.

Company accounting systems and internal reporting structures may not be established to be aligned with any requirements. Some information, such as sales by country, are relatively universally managed and would be straight forward to provide. Other information, particularly to a fully allocated profit level would be more complex and burdensome to produce. Significant additional systems or system changes could be required, and the collation and validation of such data is likely to put existing annual reporting timetables at risk.

In addition, the questionnaire does not address whether the information should be audited or have some other form of assurance. Audit would be extremely costly even if it could be done; without the usual financial reporting materiality framework, audit (in the sense of the usual financial audit) will not be possible.

Question 8. Please provide any additional comments you may have that have not been addressed above

[No further comment]