



**EUROPEAN COMMISSION**

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE  
**Financial reporting**

# **SUMMARY REPORT**

**OF THE RESPONSES RECEIVED TO THE**

**COMMISSION'S CONSULTATION ON  
COUNTRY-BY-COUNTRY REPORTING  
BY MULTINATIONAL COMPANIES**

**DIRECTORATE-GENERAL FOR  
THE INTERNAL MARKET AND SERVICES**

**APRIL 2011**

## 1. EXECUTIVE SUMMARY

In September 2010, the Commission agreed with the European Parliament to evaluate *"the feasibility of requesting certain issuers of shares whose securities are admitted to trading in a regulated market and which prepare consolidated accounts, to disclose in the annual financial report, key financial information regarding their activities in third countries."*<sup>1</sup>

The Commission conducted a public consultation on country-by-country financial reporting by multinational companies between 26 October 2010 and 22 December 2010 (extended to 9 January 2011)<sup>2</sup> in order to obtain stakeholders' views on possible additional disclosure requirements.

During the 10 week consultation period the Commission received 73<sup>3</sup> responses from various stakeholders, almost half of them coming from the UK and DE (36) and seven from pan-European organisations (see Fig.1).

Most of the responses (43) came from preparers (23 companies and 20 associations of companies), 17 responses came from users (13 NGOs promoting development and/or tax justice, three investors and one taxation institute), five responses came from public authorities (LU, UK, DK, HU, BE; three accounting standard setters and two national Economy Ministries), five came from accountants and auditors and three came from "other groups" (a political party, a law institute, a private person) (see Fig. 2). As regards preparers contributing to the consultation, they came from financial institutions (banks and insurance companies: 18.5%), the extractive industry (oil companies: 10%, mining companies: 7%), the chemical and pharmaceutical industry (11%), other energy industries (4.5%). Miscellaneous preparers made up the rest (see Fig.3). All companies that contributed to the public consultation have operations in third countries, and 91% are listed companies which prepare reports according to IFRS.

The overall result of the consultation shows a rather diverse pattern of opinions (especially on questions 1 to 3), reflecting the opinions of several categories of respondents: where preparers, accountants and auditors were in general opposed to requirements to report on a country-by-country basis, users and other respondents were in favour. The opinions of public authorities were split and half of them expressed "no opinion" in response to several of the questions. A majority of the respondents were preparers (43 companies and industry associations out of 73 contributions) who expressed a rather dismissive view on most of the questions. However, a detailed analysis shows that the industry most directly concerned – the extractive industry, in particular oil and gas – expressed in general a constructive view as they consider this to be conducive to improving domestic accountability and governance in resource-rich countries (see question 4; Fig 4). The NGO's were of similar views. As regards the type

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<sup>1</sup> The declaration of 22 September 2010 from the Commission to the Parliament can be found at : <http://register.consilium.europa.eu/pdf/en/10/st15/st15650-ad01.en10.pdf>

<sup>2</sup> The consultation document can be found at: [http://ec.europa.eu/internal\\_market/consultations/2010/financial-reporting\\_en.htm](http://ec.europa.eu/internal_market/consultations/2010/financial-reporting_en.htm)

<sup>3</sup> There were actually 76 responses, but four responses came from the same organisation (and in one case the same person) so they were counted as one sole contribution in the statistics. However, all contributions have been published on the website. For more information see the methodology section.

of companies which should fall under the scope of any future instrument, among the respondents who considered that some companies should be targeted a majority considered listed companies to be the appropriate group (see Fig 5).

## 2. INTRODUCTION

In September 2010, the Commission agreed with the European Parliament in the context of the negotiations on the new supervisory package to prepare a Communication by September 2011 "*evaluating the feasibility of requesting certain issuers of shares whose securities are admitted to trading in a regulated market and which prepare consolidated accounts, to disclose in the annual financial report, key financial information regarding their activities in third countries.*"<sup>4</sup>

The Commission conducted a public consultation on country-by-country financial reporting by multinational companies between 26 October 2010 and 22 December 2010 (extended to 9 January 2011)<sup>5</sup> in order to obtain stakeholders' views on possible additional disclosure requirements.

This report summarises the comments received during the consultation. The consultation document consisted of eight questions aimed at gathering reactions and insights from stakeholders as well as quantitative and qualitative evidence on the impact, costs and benefits relating to the issue of country-by-country reporting obligations.

The Commission services received 73 responses<sup>6</sup> from various stakeholders, almost half of them coming from the UK and DE (36) and seven from pan-European organisations (see Fig.1).

Respondents were classified as preparers, users, public authorities, accountants and auditors, and others. Most of the responses (43) came from preparers (23 companies and 20 associations of companies), 17 responses came from users (13 development and tax NGOs, three investors and one taxation institute), five responses came from public authorities (LU, UK, DK, HU, BE; three accounting standard setters and two national Economy Ministries), five responses came from accountants and auditors, and three responses came from "others" (a political party, a law institute, a private person) (see Fig. 2).

All responses are available on the European Commission website<sup>7</sup>. According to Commission rules, responses from registered lobbyists (23) are presented separately from other responses.

### Methodology of data analysis

The results of the public consultation are both presented by aggregated answers and by category of respondent (preparer, user, etc.) in order to give a fair view of the different opinions expressed. In most cases, categorisation is based on the declaration of the respondent. However, several respondents have been reclassified in order to ensure coherence and provide more meaningful analysis of the contributions. For example, some who classified themselves as "others" were reclassified to "preparers" or "users"

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<sup>4</sup> The declaration of 22 September 2010 from the Commission to the Parliament can be found at : <http://register.consilium.europa.eu/pdf/en/10/st15/st15650-ad01.en10.pdf>

<sup>5</sup> The consultation document can be found at: [http://ec.europa.eu/internal\\_market/consultations/2010/financial-reporting\\_en.htm](http://ec.europa.eu/internal_market/consultations/2010/financial-reporting_en.htm)

<sup>6</sup> See footnote number 3.

<sup>7</sup> Please see the responses to the Consultation at: [http://circa.europa.eu/Public/irc/markt/markt\\_consultations/library?l=/accounting/country-by-country&vm=detailed&sb=Title](http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/accounting/country-by-country&vm=detailed&sb=Title)

following the examination of their field of business. This has been done in accordance with the questionnaire's definitions.

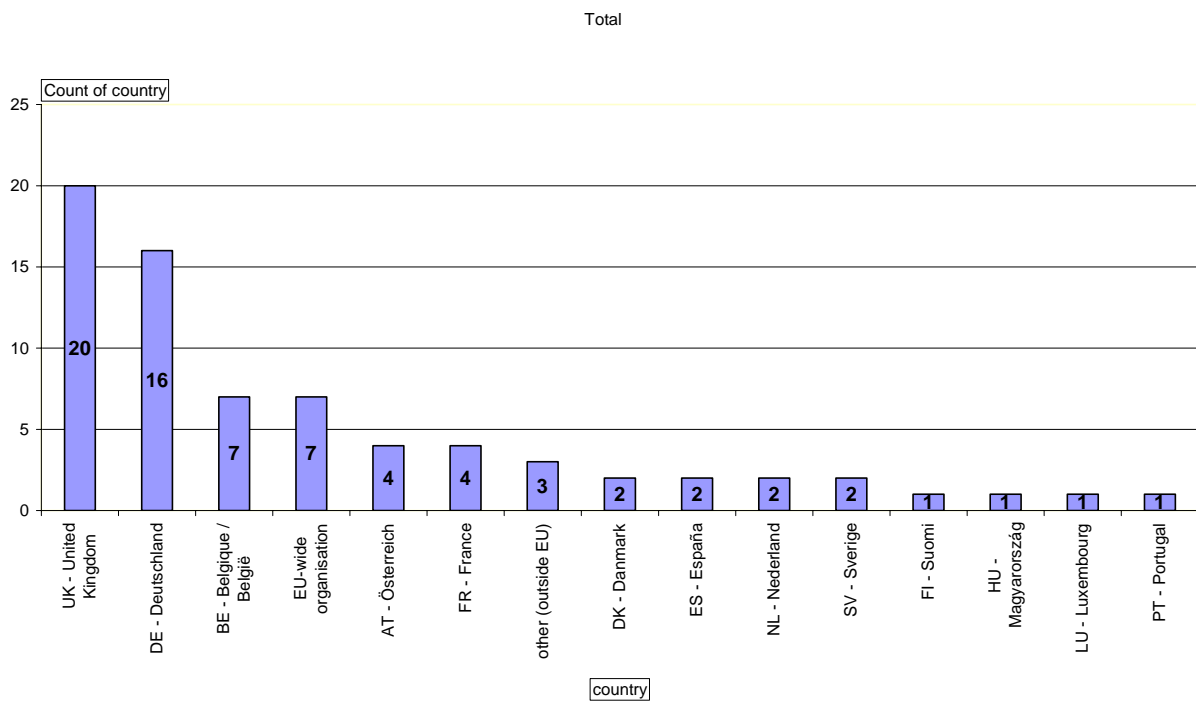
Several contributions coming from the same organisation have been counted as one sole contribution in the statistics. However all contributions have been published on the website.

In analysing the responses the Commission services took into account the fact that not all stakeholders have the same organisational facilities and thus cannot contribute to public consultations at the same level.

The key findings of the consultation are summarized below. The results of this consultation should not be read as a vote on questions asked, but as an indication of views expressed by stakeholders who decided to participate.

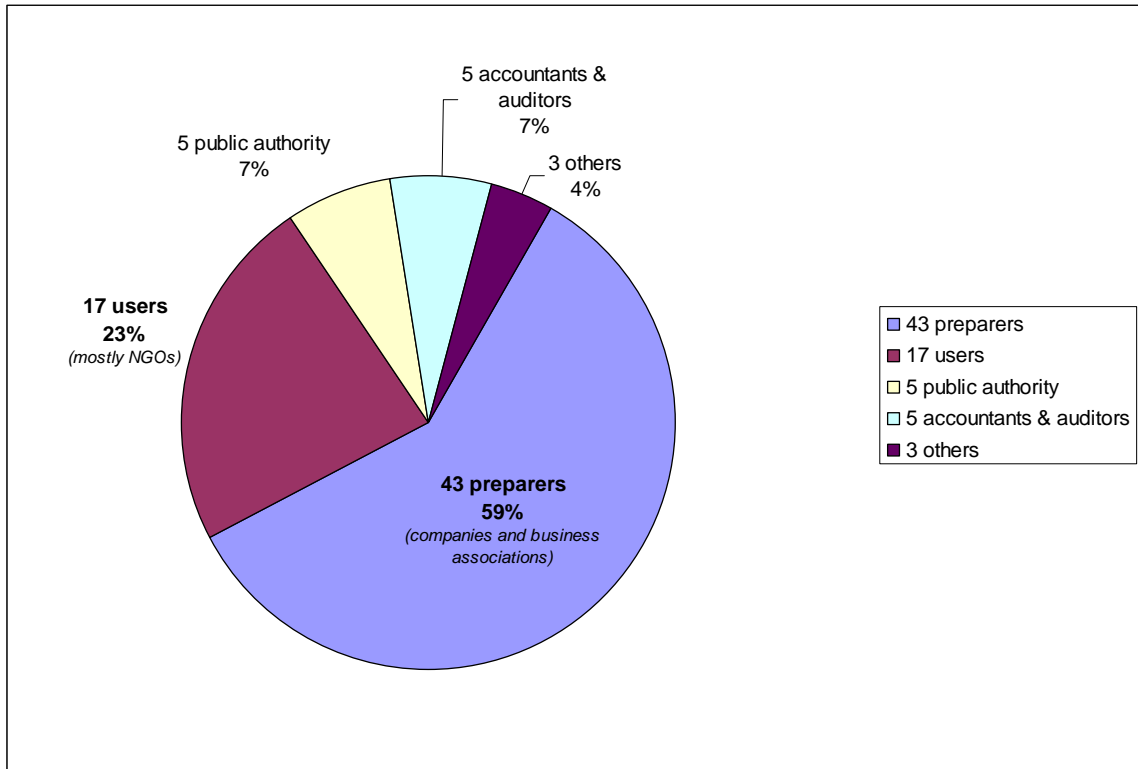
We would like to express our gratitude to all participants in this consultation.

Fig. 1. Breakdown of responses per country (in number)



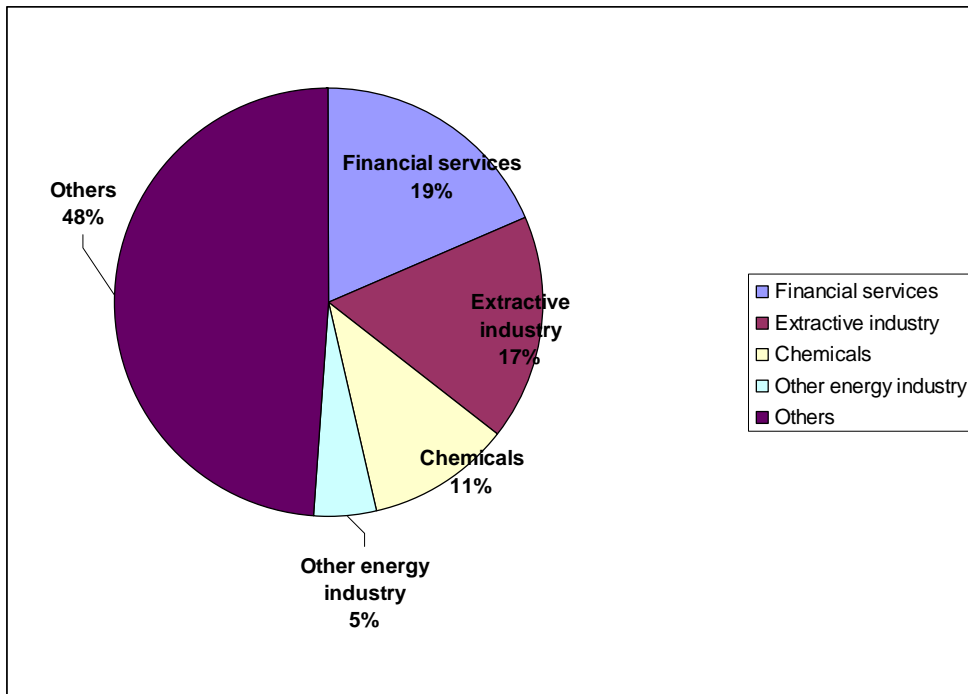
Source: European Commission

Fig. 2. Breakdown of responses per type of respondent (in %)



Source: European Commission

Fig. 3. Breakdown of preparers (in %)

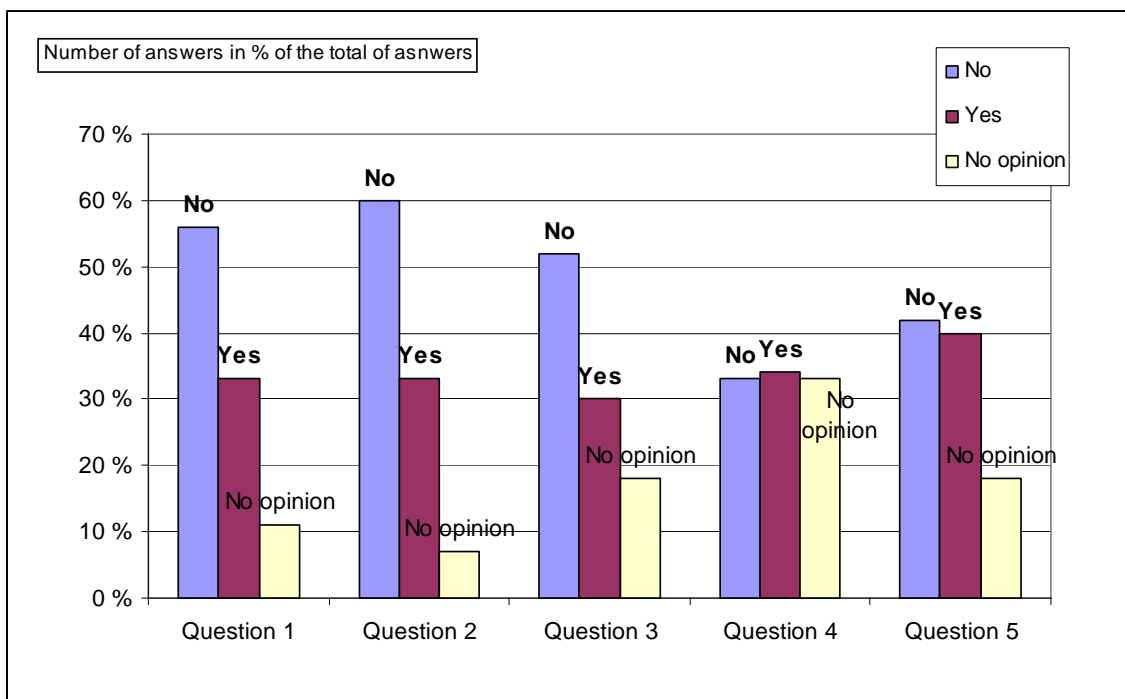


Source: European Commission

### 3. OVERALL ANALYSIS OF THE ANSWERS

The results of the consultation need to be seen against the background that only 73 responses were received, of which almost two-third came from preparers and industry-associations, what implies that any statistical results need nuance as has been done below. It should be noted that the industry which would be most directly concerned by any future instrument – the extractive industry, in particular the oil and gas industry – expressed the view that CBCR would help to improve domestic accountability and governance in resource-rich countries (see question 4 and Fig 4).

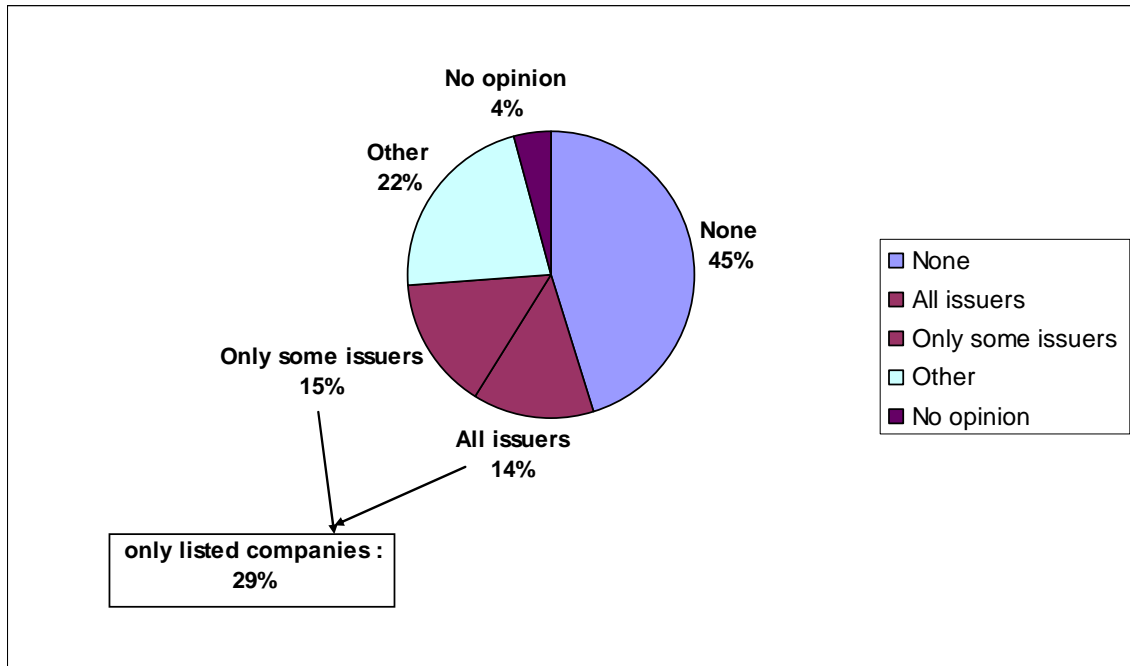
Fig. 4. Aggregated answers to questions 1 to 5: breakdown of responses per question, all types of respondents included (in % of the answers).



Source : European Commission

As regards the type of companies which should fall under the scope of any future instrument, among the respondents who considered that some companies should be targeted, a majority considered listed companies to be the appropriate group (see Fig 5).

Fig. 5. Aggregated answers to question 6, all types of respondents included (in %).



Source : European Commission

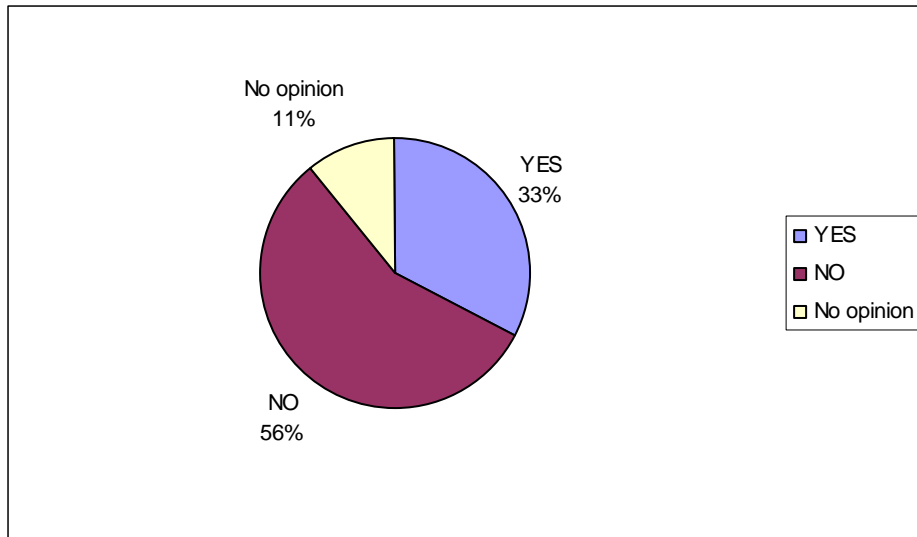


#### 4. ANALYSIS OF ANSWERS TO QUESTIONS 1 TO 8

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

Whilst around half of the respondents (56%) did not consider the new EU rules useful, 33% supported it and 11% expressed no opinion.

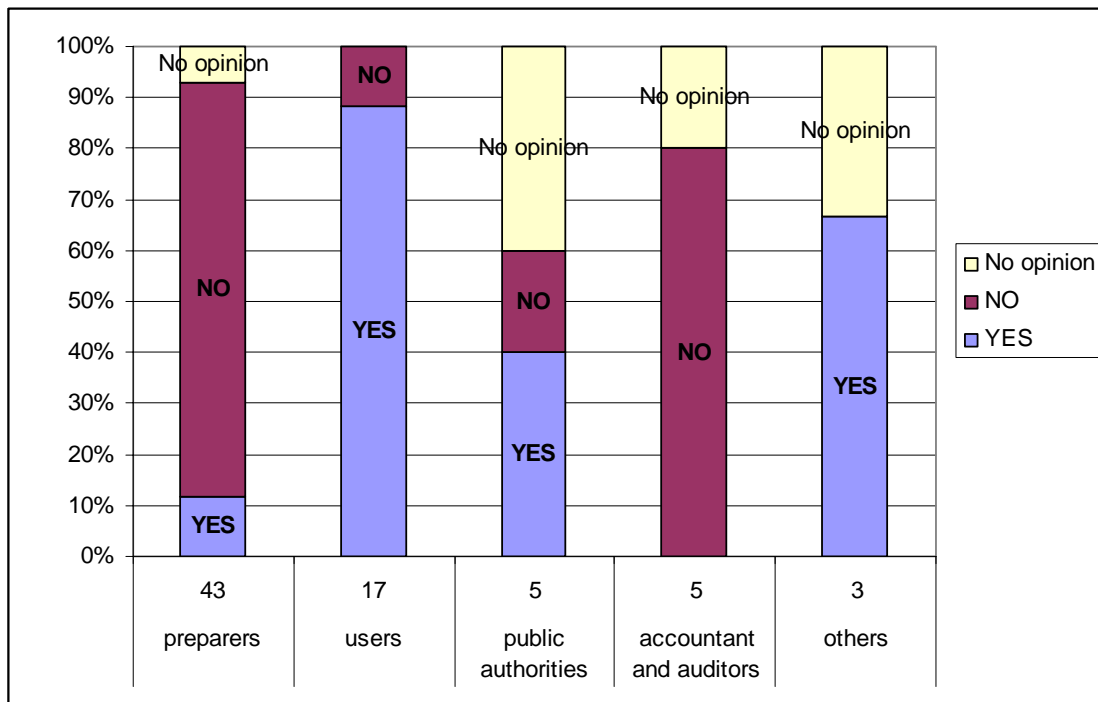
Fig. 6. Question 1: Breakdown of responses, all types of respondent included.



Source: European Commission

An analysis of the answers by category of respondents showed that divergent opinions were expressed according to the category of respondents.

Fig. 7. Question 1: Breakdown of responses per type of respondent (in %).



Source: European Commission

Most preparers (80%) were doubtful on the usefulness of new EU rules, while only 11% supported such an idea. Most preparers put forward the following arguments:

- Sufficient transparency is already provided by existing requirements: the Transparency Directive (a company's country risk exposure is reviewed in the management report), the Accounting Directives (identification of subsidiaries, jointly controlled entities and associates) and IFRS 8 Operating Segments (information by geographical area).
- The primary purpose of financial reporting – to provide useful information to investors - should not be overloaded by other objectives. Increasingly complex and potentially confusing financial statements could make them unreadable and prevent effective communication.
- CBCR would lead to competitive disadvantage for EU companies (cf. China, India, Russia). An onerous burden would be imposed only on EU based multinationals. CBCR could also be commercially sensitive and/or breach confidentiality agreements. As a result, it could also have an impact on EU security of energy supply.
- Financial information provision is best regulated through global accounting standards (IFRS) in order to ensure a level playing field.
- Investors could be deterred from investing in EU listed companies to the detriment of the EU economy.

Most Users (88%), including NGO's, however strongly supported having new EU rules. Their main arguments are the following:

- The existing disclosure requirements (IFRS 8, European Directives) do not provide sufficient transparency as they do not require country-by-country reporting. When provided, the data is not comprehensive enough (e.g it is impossible to assess intra-group trade), comparable, or accessible. It is thus not possible to assess the real activity of a company in a given country.
- Even when the requirement exists (disclosure of the names of subsidiaries), some studies show that many companies do not comply with their obligation. This deficiency would be overcome if the information was included in the audited financial statements.
- This lack of transparency prejudices the needs of all users (shareholders, loan creditors, business partners, consumers, employees, public at large (civil society and public authorities)). The lack of transparency contributed to and aggravated the financial crisis.
- EU rules on greater transparency would enhance investors' protection and market efficiency and thus improve the single financial market.
- An alignment with the US legislation would create a level playing field within the EU, as some EU companies are listed in the US and some are not.
- The EU has already recognised the need for greater transparency (Commission Communication on Tax and Development)

The opinions of public authorities were divergent: 20% considered existing requirements as sufficient (adequate segmentation of financial data), 40% insufficient (lack of information for tax purposes, third countries don't always require disclosure). Some were of the opinion that CBCR could have in theory positive effects on corporate governance, but it could lead in practice to the development of complex structures to avoid reporting obligations or to delocalization. 40% expressed "No opinion".

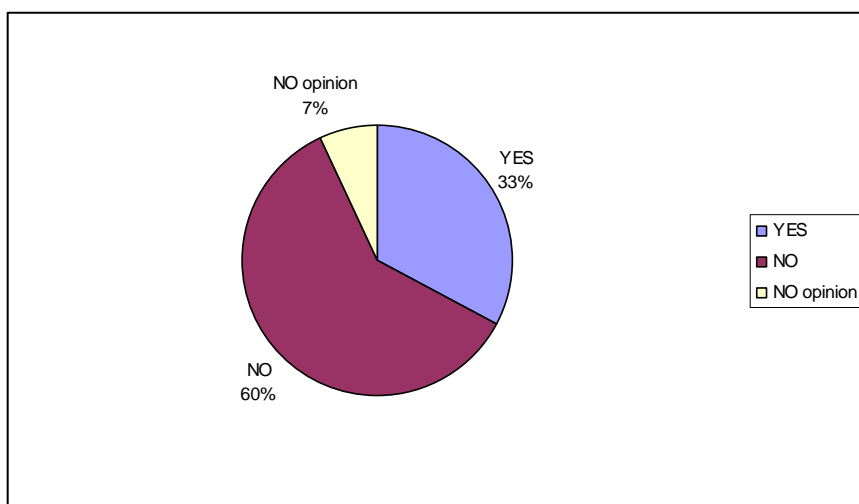
80% of the accountants and auditors expressed the view that new rules would not be useful. 20% expressed no opinion.

Other respondents were mostly in favour of having new EU rules.

**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?**

Again, there is a diverse pattern where due to the large presence of preparers and industry associations a majority of the respondents (60%) did not think that CBCR would be meaningful for the investors, whereas 33% thought it would be useful and 7% expressed no opinion.

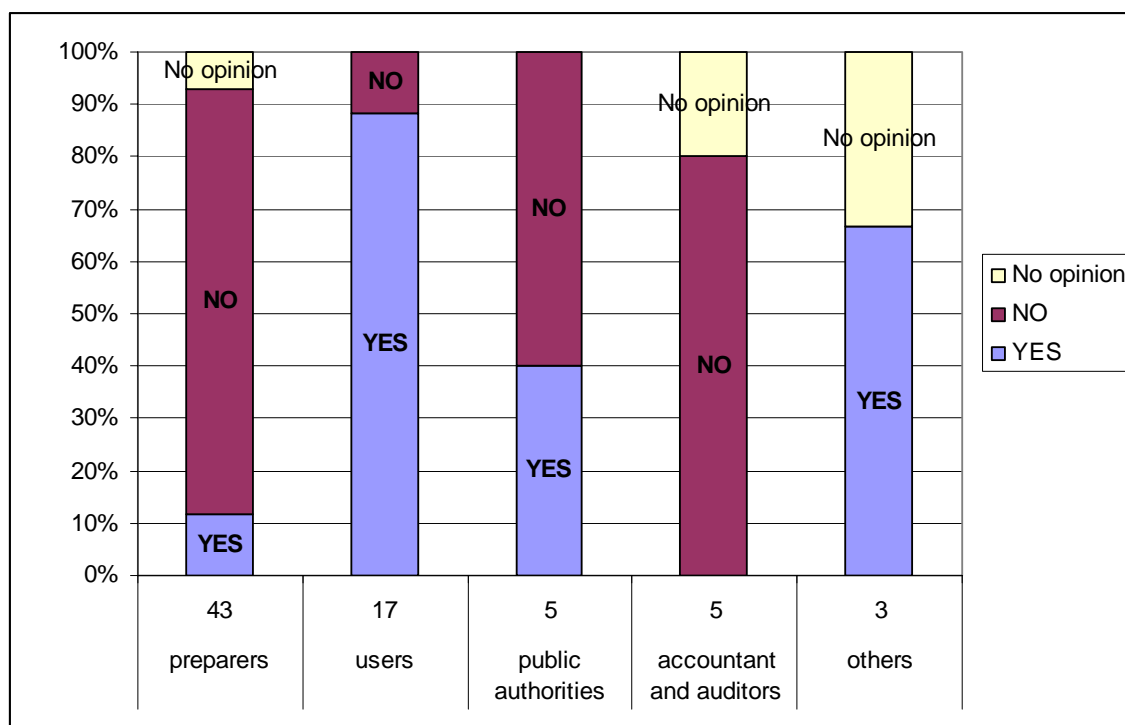
*Fig. 8. Question 2: Breakdown of responses, all types of respondent included.*



Source: European Commission

An analysis of the answers by category of respondents showed that the views of stakeholders also diverged on this question.

Fig. 9. Question 2: Breakdown of responses per type of respondent (in %).



Source: European Commission

Around 80% of preparers thought that it would not be useful for investors to have data on a country-by-country basis (11.5 % of preparers said "Yes" and 9.5 % expressed "No opinion"). They mainly argued that:

- Investors already have sufficient information, through IFRS 8 which contains some geographical disclosure requirements and the risk factor disclosure in the Transparency Directive. When geographical information is necessary to assess the risk profile of the entity, it will already be disclosed.
- Investors have not requested country-by-country data. Those investors interested in ethical considerations will request specific up-to-date information directly from the reporting entity itself.
- CBCR can even harm investors by making financial statements more difficult to understand and by revealing sensitive information (especially if a company has only one project in a country or is the sole foreign company operating in a particular jurisdiction).
- It is questionable whether reputational and ethical risks are best reflected using financial information. The general purpose of financial reporting must be a risk and materiality assessment of the users' needs.

Most users (88%) thought that it would be useful for investors to have data on a country-by-country basis. They argue that:

- This information would have a significant impact on decisions made by investors and other suppliers of capital, notably as regards risks, rates of return, governance, tax and the balance between short and long term rewards.

- There are several examples of investors calling for CBCR (e.g. Chevron shareholders in June 2010).
- CBCR would provide the following information: where corporations trade; the relevant importance of different jurisdictional markets; where they do and do not pay their taxes; where they earn their profits; how they structure their businesses; how they structure their internal supply chains; where they allocate their resources; where they expose investors to geo-political risk.
- Information that should be published should include: a profit and loss account, a limited balance sheet and some cash flow information separately for all jurisdictions (except for some immaterial locations).

In general, public authorities were interested in tax (information on intra-group transfers) and prudential information. One also noted that some investors consider ethical matters in making investment decisions.

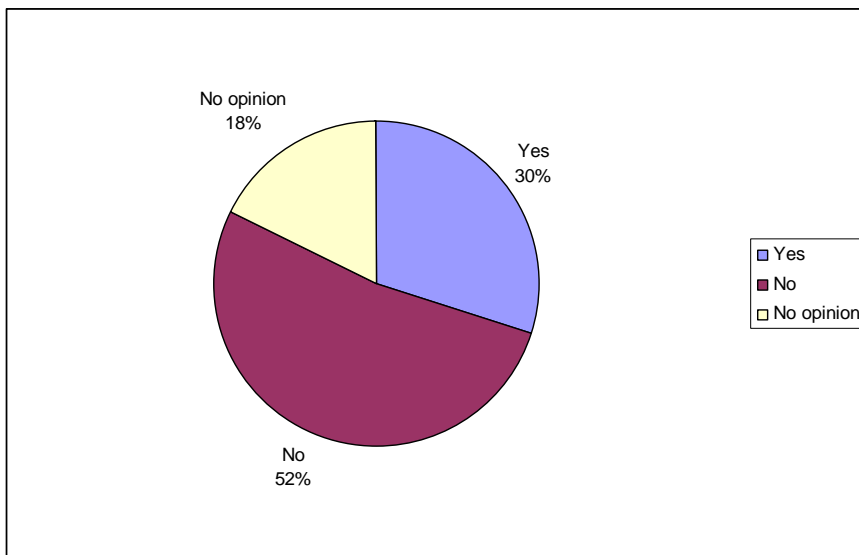
Accountant and auditors shared preparers' views.

Two of the three other respondents shared users' views and one expressed no opinion.

**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?**

Most of the respondents expressed the view that CBCR would not be useful to improve tax governance at a global level, whereas 30% of respondents thought it would be useful and 18% expressed no opinion.

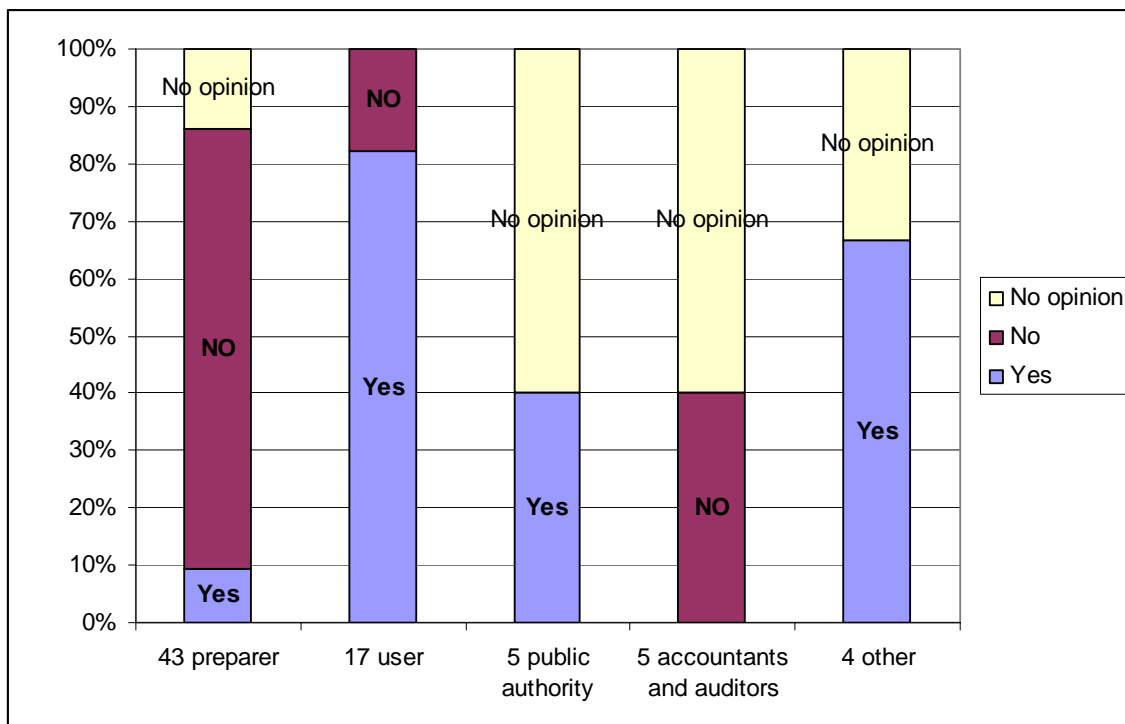
*Fig. 10. Question 3: Breakdown of responses, all types of respondent included.*



Source: European Commission

An analysis of the answers by category of respondents showed that the views of stakeholders diverged on this question.

Fig. 11. Question 3: Breakdown of responses per type of respondent (in %)



Source: European Commission

Most preparers (75%) were of the opinion that CBCR would not be useful in improving tax governance at a global level (9% think it would be useful). They argued the following:

- Improving tax governance at a global level should be outside the scope of general-purpose financial statements; the latter are designed to communicate with the shareholders, not with tax authorities.
- Tax information and financial information are not prepared according to the same rules. Tax information for individual countries is based on local statutory accounts which in many cases are prepared under different accounting requirements to the consolidated financial statements;
- There are more effective ways to enhance tax governance such as capacity building in local tax authorities and building better relationships between taxpayers and tax authorities. Other sources of information, like the transfer pricing documentation prepared by MNCs on the basis of OECD guidelines, together with the local accounting statements, are more suitable to tax authorities' needs.
- If the objective is to identify cases of tax avoidance, it is questionable whether CBCR is an effective and a proportionate measure.
- Most multinational companies are very clear that they adhere to the laws of the countries in which they operate, including the local tax regimes.



More than 80% of users thought that CBCR would be useful in improving tax governance at a global level (20% thought it would not be useful). They argued the following:

- Global tax governance is now an issue of considerable political significance but decision making is hampered by a lack of data to fully appraise tax governance. CBCR would provide the information needed.
- CBCR would help to identify transfer pricing abuse by indicating the profit rate on intra-group sales and provide national tax administrations with systematic and ready access to key information from MNCs. Some argued that around 60% of world trade is intra-group (according to an OECD suggestion), 50% of global trade passes through a tax haven, and 99% of the EU's biggest enterprises have at least one subsidiary in a tax haven.
- It is estimated that around US\$1,000 bn illicit financial flows leave developing countries every year. This is ten times the amount of aid they receive. Much of this outflow arises from multi-nationals' tax evasion.
- CBCR would also help other stakeholders to hold governments and companies to account for tax policies and agreements.

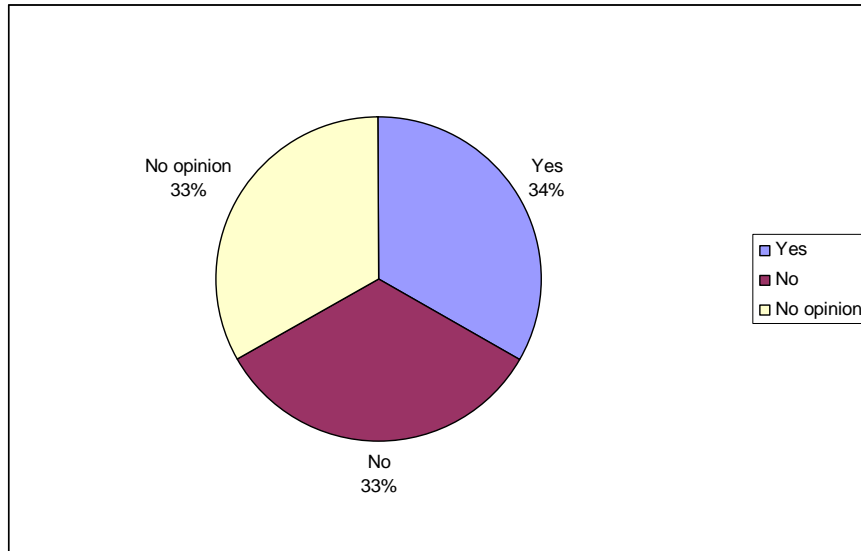
40% of public authorities thought that CBCR would be useful in improving tax governance at a global level. One stated that any kind of data would be useful as it is often difficult to determine where the real economic activity of a MNC is carried out. Another noted that, to be accurate, extremely detailed information would need to be provided (exceeding the level of information provision associated with the traditional concept of materiality), it would be complex and costly to collate, and it would be difficult to implement such a reporting regime. 60% of public authorities expressed no opinion.

60% of accountants and auditors expressed no opinion. 20% considered that CBCR would not be useful, giving comments in line with preparers' views. One explained that national tax authorities are best placed to determine what information they need and are able to compel MNEs to provide this information.

Two of the three other respondents considered CBCR would be useful. One expressed no opinion.

**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?**

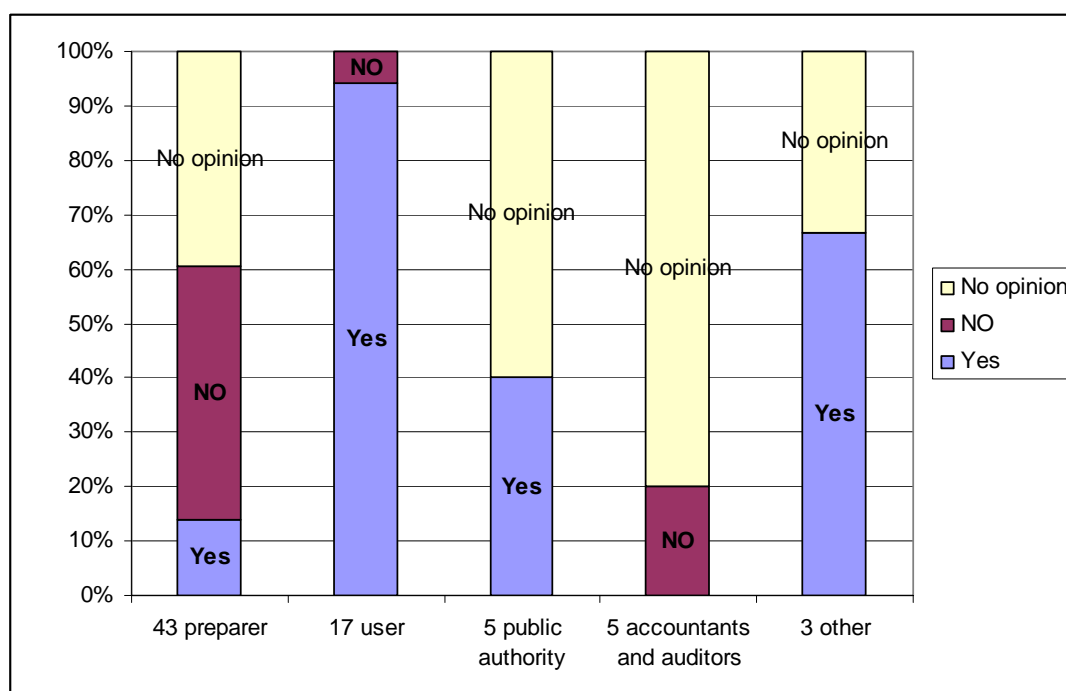
*Fig. 12. Question 4: Breakdown of responses, all types of respondents included.*



Source: European Commission

Less divergence between respondents has been expressed on this question in comparison to previous questions. Indeed, preparers coming from the extractive industry (in particular the oil and gas industry) were of the same opinion of the users that CBCR would be useful in improving domestic accountability and governance in resource-rich countries. As a result, half of those who expressed an opinion (34%) thought that CBCR would be useful (see Fig 4), but the other half disagreed.

Fig. 13. Question 4: Breakdown of responses per type of respondent (in %).



Source : European Commission

The arguments expressed by respondents were the following:

Preparers (among which 46% opposed the idea that CBCR could be useful, 40% expressed no opinion and 14% favoured CBCR) argued that:

- Without parallel disclosure of payments made by governments, disclosure by companies would not address the issue of government accountability;
- This objective is outside the scope of general-purpose financial statements.
- The Extractive Industries Transparency Initiative (EITI) would be the best framework to follow. Only EITI gives a full picture of payments to governments, brings together all necessary partners and ensures the full involvement of host governments and a level playing field for all international and national oil companies. It would also avoid the risk of breaching local legal or contractual obligations.

Users (among those all except one thought that CBCR would be useful) argued that:

- Countries rich in natural resources represent 60% of the world population. Extraction of non-renewable resources is statistically related to higher levels of corruption, conflict and poverty in producing countries (the "resource curse").
- In many resource-rich countries, citizens have little or no information about the terms of deals entered into between extractive companies and their governments, and how much money is paid to their countries or whether this is appropriate in relation to the profits being generated.
- EITI is a very useful initiative but has a voluntary nature and only five countries fully implement it. They argued that it is now time for the EU to adopt the more

systematic approach of mandatory country-by-country reporting. These approaches are complementary.

- There is an urgency to develop governance in these countries since natural resources are finite and non-renewable; the development opportunities might disappear.
- CBCR would also be good for the EU as a consumer of energy and minerals: over 50% of major mineral reserves are located in poor countries; investors shy away from costly long-term investments in high risk and poor areas (an example was cited: oil production in Shell's subsidiary in the Niger Delta region dropped by 85% from 2005 to 2008 as pipelines were attacked and employees kidnapped).
- The type of information that would be useful includes: remaining reserves, production volumes, and payments to governments.

As regards public authorities, 60% expressed "no opinion" and 40% considered that CBCR would be useful in improving governance. One noted that to be relevant, the information would need to be extremely detailed (in excess of what would be required ordinarily to comply with the "materiality concept") and explained; CBCR disclosure of profit and loss accounts, number of employees, intra-group trade would enable an assessment of the creation of value added and its distribution, as well as poor ethical practices.

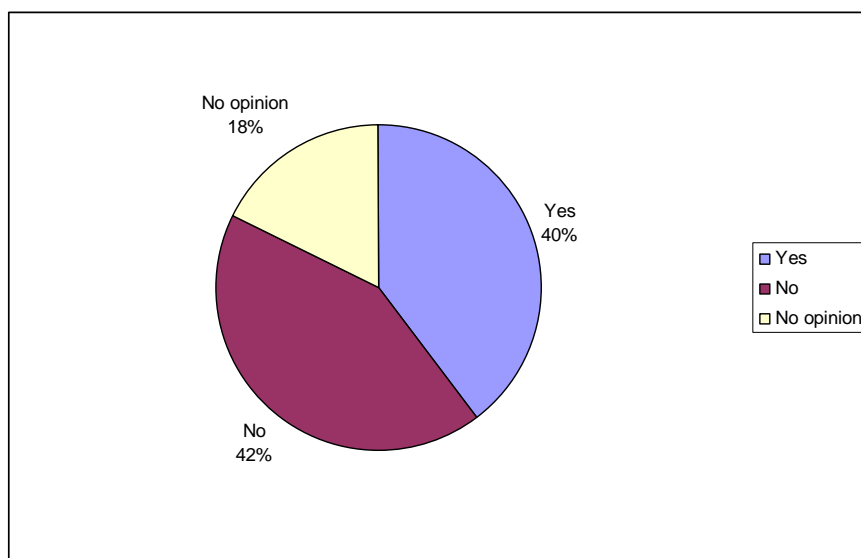
75% of accountants and auditors expressed no opinion. One answered "no" and observed that tax avoidance and corruption are risks that are not only associated with extractive industries; a voluntary code of disclosure agreed with stakeholders would be a better instrument.

Two other respondents thought that CBCR would be useful. One expressed no opinion.

**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?**

Less divergent opinions were also expressed to this question in comparison to questions 1 to 3. Indeed, almost as many respondents supported the idea of a predefined format (40%) as those who opposed the idea (42%). 18% expressed no opinion.

Fig. 14. Question 5: Breakdown of responses, all types of respondents included.



Source: European Commission

Opponents of a predefined format (60% of preparers, 40% of accountants and auditors and 20% of public authorities) argued that:

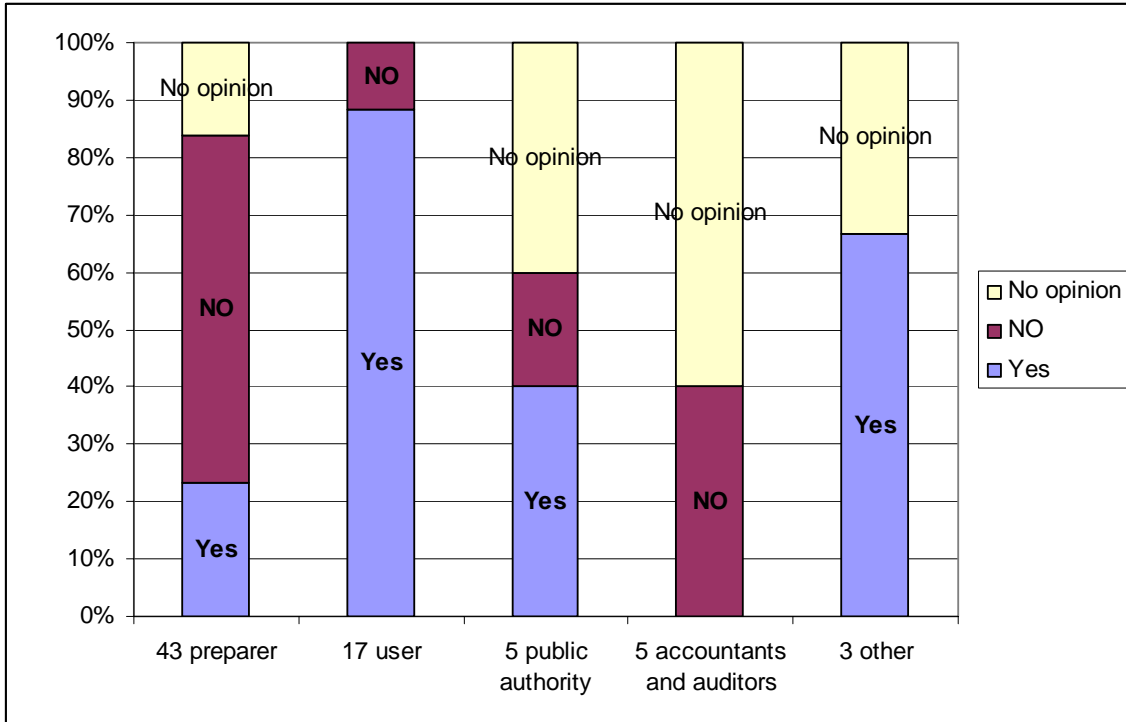
- Requirements *consistent* with the EITI principles and reporting templates would be needed in order not to undermine the EITI process.
- EU prescribed formats may introduce disclosures which are not useful to users. Following a principles-based approach would allow companies to apply their judgement in determining what would be useful information.
- A predefined format would be costly as definitions of payments and revenues differ from one jurisdiction to another.
- These additional costs would lead to a competitive disadvantage.

Supporters of a predefined format (88% of users, 23% of preparers, 40% of public authorities) argued the following :

- CBCR is more of an accounting issue than a CSR issue. It needs to be subject to the same standard of consistency and auditing as all other data in financial statements, in order to be credible and comparable. The standard template should be the same as for the profit & loss account, which is familiar to all users of financial statements.

- A predefined format should be as consistent as possible with the Dodd-Frank Act, so as to reduce the effort for MNCs to publish the data in two jurisdictions. This would require that the data be presented annually, and in an electronic format.
- Some supporters asked for a standard consistent with the EITI or coming from an IFRS, which should not be too prescriptive.

Fig. 15. Question 5: Breakdown of responses per type of respondent (in %)



Source: European Commission

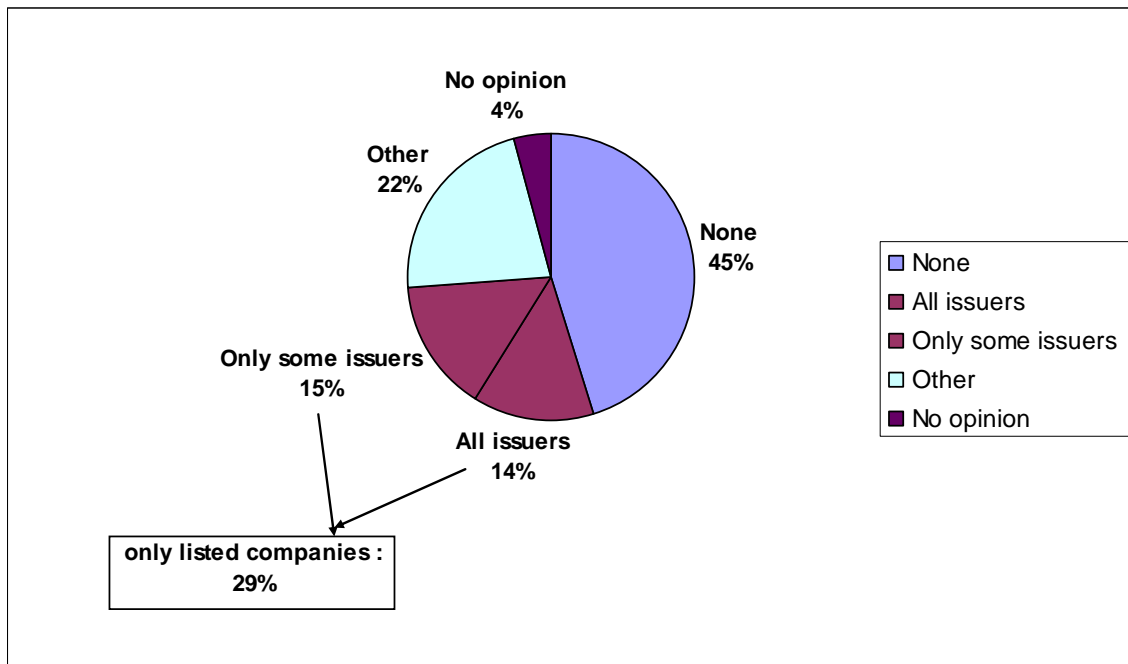
**Question 6. If country-by-country reporting were to be considered useful, what kind of multinational companies would usefully be targeted?**

In this question, respondents were asked to choose between the following categories:

- (1) All issuers of shares in EU regulated markets
- (2) Only some issuers of shares in EU regulated markets which meet one or more of the following criteria (*click all relevant boxes*):
  - (a) large size [*please provide a threshold in terms of capitalization or turnover*]
  - (b) company active in the extractive industry
  - (c) company active in other important sector of activity for third countries [*please identify the sector*]
  - (d) company for which the revenue arising from third countries is important [*please provide a threshold or percentage*]
- (3) None
- (4) Other (*please specify*)

A majority of respondents (45%) considered that no company should be targeted (this reply came mostly from preparers). 29% of the respondents considered that listed companies should be targeted: 14% were of the opinion that all issuers should be targeted and 15% of the opinion that only some types of issuers should be targeted (all users mentioned the extractive industry under this latter category). 22% of respondents thought that "other" types of companies should be targeted and often mentioned large companies. 4% expressed "No opinion."

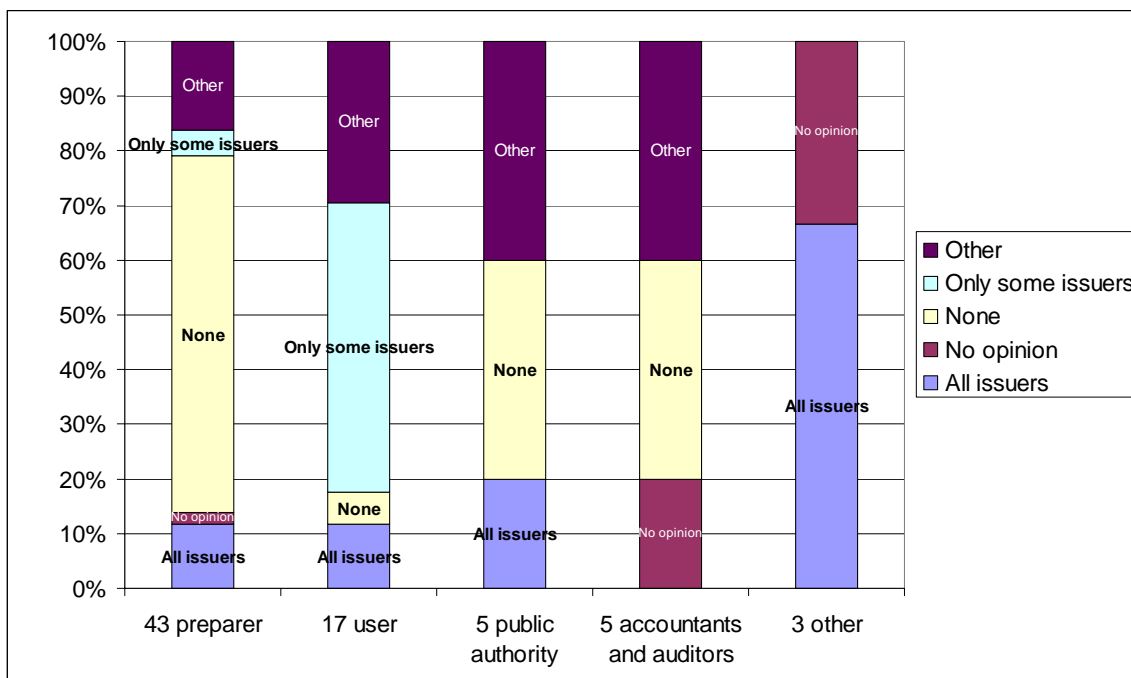
Fig. 16. Aggregated answers to questions 6, all types of respondents included (in %).



Source : European Commission

An analysis of the answers by category of respondents showed the following:

Fig. 17. Question 6: Breakdown of responses per type of respondent (in %).



Source: European Commission

Most preparers (65%) considered that no company should be targeted. 11,5% considered that "all issuers" should be targeted. 16,5% answered "other" company and often mentioned big companies, whether or not they are listed, in all sectors. 4,5% answered "only some issuers" and chose "company active in the extractive industry" or "large size". Many preparers mentioned that SMEs should or could be excluded. 2,5% expressed "no opinion."

Most users (53%) considered that CBCR should apply "only to some listed companies", 29% to "other" company, 12% to "all listed" companies and 6% to no company.

Among the 53% of users who chose "only some listed companies", all mentioned the extractive industry. More precisely: 23,5% chose large listed company or listed company active in the extractive industry ; 17,5% chose large listed company or listed company active in the extractive industry or listed company in the financial services; 12% chose large listed company or listed company active in the extractive industry or listed company active in another sector important to third countries or for which revenues arising from third countries is important.

Among the 29% of users who chose "other" company, 18% explained that CBCR should apply to all listed MNCs but also to very large non-listed MNCs (but in the extractive industry -seen as a high risk sector- all companies should be targeted). A MNC should be defined as a company that operates in more than one jurisdiction; and the "very large" size should be defined as four times the criteria for a European medium-size company.

As regards public authorities, 40% considered that no company should be targeted and 40% chose "other" company: listed companies exploiting natural resources (extractive or not). 20% expressed no opinion. One authority observed that targeting only listed companies could deter companies from listing.



40% of accountants and auditors considered that no company should be targeted. 20% expressed no opinion. 40% chose "other" company: all large MNCs, whether or not listed (20%), and all companies using IFRS (20%).

Two of the three other respondents considered that all listed companies should be targeted. One expressed no opinion.

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

65% of preparers answered this question and all stated that the burden would be substantial, in terms of employment costs, professional and consultancy fees, and changes in the company's information systems. Further observations were made:

- The costs would depend on the scope and detail of disclosures that would be required and on the obligation to audit this information (would increase costs) or not. Reporting sales or revenue would be less costly than reporting fully allocated profits or payments to government. The cost would also depend on the company's structure: how the company is organized, whether information can already be extracted from their current systems or whether there is a need to redesign systems, the number of subsidiaries a company has in different jurisdictions (as it will be necessary to reconcile various local financial accounts at group level);
- Costs would be increased were there to be a lack of clarity, or complex reporting obligations. A clear definition of taxes, royalties, cost-oil, profit-oil, in-kind payments, etc would be needed;
- Three companies gave some estimates: up to \$10M or more if new systems were required; several millions of € over \$100M for a company which is not organised on a geographical basis;
- Costs would outweigh the benefits;
- Additional costs for EU companies would result in a competitive disadvantage;

94% of users answered this question and all except one underlined that the costs would not be significant. Furthermore:

- The costs would be outweighed by benefits to investors, citizens and governments; costs are easier to measure than benefits, but it should not lead the Commission to give more importance to costs than to benefits.
- New costs (collating, auditing and publishing data) must not be overestimated. MNCs already have to gather and audit much of this information in order to comply with domestic tax reports and anti-bribery laws.
- Information could be presented in an XBRL format in order to reduce publishing costs.
- Companies only give rough estimates of the expected cost and rigorous analysis of the real cost is required.

60% of public authorities answered this question. 20% considered that the cost should be minimal as Group reporting systems should already provide for this information to be collated. 20% considered that the cost would be significant, and to be really useful, much more detailed information than usually presented in financial statements would be needed. 20% asked for a thorough cost/benefit analysis.

80% of accountants and auditors answered this question and expressed the view that the cost would be significant.

25% of other respondent answered this question and shared the aforementioned user views.

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

25% of preparers made additional comments. Most of the comments repeated some previous remarks (the existence of sufficient regulation, the need for a global solution, the risk of a competitive disadvantage, the risk of breaching local regulations and confidentiality agreements). Some further comments were:

- Country-by-country reporting is a highly political and undetermined issue. The objective pursued by the Commission is not clear. A discussion about increased reporting requirements for companies must be put into a broader perspective and be balanced and proportionate. Harmonization of Member States tax rules should also be addressed.
- Public opinion can very easily be misled by figures that are not suitable for interpretation without a deep knowledge of the respective company and the tax law of the host country.
- CBCR is not an accounting issue and should not be included in the audited financial statements.

55% of users made additional comments. Their main comments were the following:

- CBCR is an accounting issue and should be included in the financial statements in order to allow credible and comparable data. CBCR must not be linked with CSR reporting, which is generally voluntary.
- The scope of CBCR should not be limited to MNCs operating in third countries, but it should also include those operating within the EU and EEA as well. This would be consistent with the US legislation.
- CBCR should be addressed in an IFRS in order that it is applicable in all jurisdictions where it is material. The concept of "materiality" should not be assessed only in terms of the company's performance in this jurisdiction but also in terms of the impact of the company's activity on the well-being of this country.
- Given the specific impact of upstream extractive industries, they should disclose all payments greater than US\$1,000 or payments in aggregate greater than US\$15,000.

80% of public authorities provided additional comments. In general, they welcomed the ethical objectives of a possible CBCR disclosure but expressed some doubts (for instance, a cost/benefit analysis is needed; pure numerical data can be misleading without narrative commentary; the competitive disadvantage; the difficulty to implement. 40% considered that CBCR is not an accounting issue. 20% thought that a CBCR should be included in a CSR report.

40% of accountants and auditors provided additional comments and noted that a CBCR should not be included in the financial statements

Other respondents did not provide additional comments.

**Annex 1: Glossary**

**CBC:** Country-by-Country

**CBCR:** Country-by-Country Reporting

**CSR:** Corporate Social Responsibility

**EITI:** Extractive Industries Transparency Initiative

**IASB:** International Accounting Standards Board

**IFRS:** International Financial Reporting Standard

**MNC:** Multinational Corporation

## **Annex 2: List of questions of the public survey**

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

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?

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?

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?

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?

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

In this question, respondents were asked to choose between the following categories:

- i. all issuers of shares in EU regulated markets
- ii. Only some issuers of shares in EU regulated markets which meet one or more of the following criteria (*click all relevant boxes*):
  - a. large size [*please provide a threshold in terms of capitalization or turnover*]
  - b. company active in the extractive industry
  - c. company active in other important sector of activity for third countries [*please identify the sector*]
  - d. company for which the revenue arising from third countries is important [*please provide a threshold or percentage*]
- iii. None
- iv. Other (*please specify*)

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

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

**Annexe 3: Numerical analysis of question 1 to 6 and aggregated answers in % to questions 1 to 5**

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

Type of respondent	YES	NO	No opinion	Total
Preparers	5	34	4	43
Users	15	2	0	17
Public authorities	2	1	2	5
Accountant and auditors	0	4	1	5
Others	2	0	1	3
Total	24	41	8	73

**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?**

Type of respondent	YES	NO	No opinion	Total
Preparers	5	35	3	43
Users	15	2	0	17
Public authorities	2	3	0	5
Accountant and auditors	0	4	1	5
Others	2	0	1	3
Total	24	44	5	73

**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?**

Type of respondent	Yes	No	No opinion	Total
Preparer	4	33	6	43
Users	14	3		17
Public authority	2	0	3	5
Accountants and auditors	0	2	3	5
Other	2	0	1	3
Total	22	38	13	73

**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?**

Type of respondent	Yes	NO	No opinion	Total
Preparer	6	20	17	43
User	16	1	0	17
Public authority	2	0	3	5
Accountants and auditors	0	1	4	5
Other	2	0	1	3
Total	26	22	25	73

**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?**

Type of respondent	Yes	NO	No opinion	Total
Preparer	10	26	7	43
User	15	2	0	17
Public authority	2	1	2	5
Accountants and auditors	0	2	3	5
Other	2	0	1	3
Total	29	31	13	73

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

Type of respondent	All issuers of shares in EU regulated markets	Only some issuers of shares	Other	None	No opinion	Grand Total
Preparer	5	2	7	28	1	43
User	2	9	5	1	0	17
Public authority	1		2	2	0	5
Accountants and auditors	0	0	2	2	1	5
Other	2	0	0	0	1	3
Total	10	11	16	33	3	73

**Questions 1 to 5: Aggregated answers (in %)**

