

EUROPEAN PARLIAMENT



Sir David Tweedie
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Tuesday the 6th October 2009

Dear Sir David,

Re : Country-by-country reporting

First let us thank you for your openness when addressing the issue of transfer pricing during your session at the EU Parliament on September 28th. Thank you also for your sympathetic understanding of the need to tackle this problem within the context of International Financial Reporting Standards, in particular of the need to incorporate country-by-country reporting within those standards.

You referred to International Financial Reporting Standard 6 on the extractive industries. Could you provide us with more information on the state of play of the discussions on country-by-country reporting within this context?

In this context you referred to a US initiative. Did you mean the "*Energy Security Through Transparency Act of 2009*" that was last introduced in the Senate on Sept the 23rd by Senator Lugar? We would appreciate your opinion on this Act. Does it alter your opinion on the need for country-by-country reporting to be incorporated within International Financial Reporting Standard 6?

You also stated that IFRS 8 on segment reporting was the wrong standard for the introduction of country-by-country reporting? Can you please explain why as the

problems relating to transfer mispricing do, very clearly, extend well beyond the extractive industries? In that case why isn't it appropriate to extend country-by-country reporting to other sectors by incorporating it in a revised International Financial Reporting Standard 8, which has, anyway to be reviewed in 2011?

You also referred to resistance to country-by-country reporting from "political jurisdictions". We were puzzled by this. Do you mean resistance from developing countries, within the EU, or the USA? Beyond that, are there other actors within or influencing the International Accounting Standards Board who appear to be reluctant to work towards a workable solution for disclosing data that might mitigate the risk to taxation revenues (and resulting shareholder risk) arising from transfer mispricing?

Our proposal would be that the following information should be included in the accounts of all multinational corporations :

1. The name of each country in which it operates;
2. The names of all its companies trading in each country in which it operates;
3. What its financial performance is in every country in which it operates, without exception, including:
 - Its sales, both third party and with other group companies;
 - Purchases, split between third parties and intra-group transactions;
 - Labour costs and employee numbers;
 - Financing costs split between those paid to third parties and to other group members;
 - Its pre-tax profit;
4. The tax charge included in its accounts for the country in question split as noted in more detail below;
5. Details of the cost and net book value of its physical fixed assets located in each country;
6. Details of its gross and net assets in total for each country in which 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:

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

In addition, if the company operated within the extractive industries we would also expect to see a full breakdown of all those benefits paid to the government of each country in which a multinational corporation operates broken down between the categories of reporting required in the Extractive Industries Transparency Initiative¹.

¹ <http://eitransparency.org/> accessed 13-5-09

To illuminate these proposals these are links to two Norwegian funded studies on this issue:

- <http://www.financialtaskforce.org/2009/06/17/country-by-country-reporting-holding-multinational-corporations-to-account-wherever-they-are/>

- http://www.regjeringen.no/upload/UD/Vedlegg/Utvikling/tax_report.pdf

Your appraisal would be much appreciated.

Kind regards,

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Development Committee

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