WORKING BREAKFAST

FERMA
Federation of European Risk Management Associations

ECIIA
European Confederation of Institutes of Internal Auditing

COUNTRY BY COUNTRY REPORTING: FROM RISKS TO OPPORTUNITIES?

Country-by-Country Reporting

-

From Risks to Opportunities

28 June 2016 from 8.00 – 9.30 am
European Parliament, Brussels

REPORT

On 28th June, ECIIA and FERMA held a joint working breakfast in European Parliament on the theme of "Country-by-Country Reporting: From Risks to Opportunities". Its goal was to focus on the Corporate Governance implications of the Commission's new proposal released on April 12, 2016 for the largest corporations and underline the role played by the risk manager and the internal auditor in this field.

MEP Jeppe Kofod, S&D, hosted the working breakfast and **Jean-Philippe Rabine**, European Commission DG FISMA (Accounting and Reporting Unit), introduced the new corporate tax reporting requirements for large multinationals.

This was followed by a panel discussion moderated by **MEP Jeppe Kofod**, including **Jonathan Blackhurst**, Head of Risk Management at Capita (UK), **Silvio de Girolamo**, Chief Audit Executive Autogrill (Italy) and **Jean-Philippe Rabine**, European Commission DG FISMA.

The working breakfast was concluded by **MEP Jeppe Kofod**.

Key themes of the debate:

- Scope of the proposal, impacted organisations and countries
- Extraterritorial scope
- EU leadership role in financial transparency
- The cost of not being prepared
    - The regulatory risk
    - The reputation risk
- An opportunity to expand the strategic involvement of risk managers
- The role of Chief Audit Executive and Chief Risk Officer

Highlights

MEP Jeppe Kofod, S&D

- Multinational companies pay 30 % less tax than their smaller domestic competitors. Consequently this does not create a level playing field.
- OECD has estimated the yearly loss of profit shifting to low tax countries to be up to 240 Billion US Dollars.
- Underlying problem is the lack of transparency in the taxing process. The rules of the games must be public.
- Contradictory rules for banks and multinationals is a problem and concerning as it can create loopholes
- Brexit shouldn't delay the implementation of the Country-by-Country Reporting as there is a strong agenda

Jean-Philippe Rabine, European Commission DG FISMA

- Fair taxes need to be applied to both businesses and to individuals
- There have been reports of large multinational enterprises contributing less tax than they should be.
- This Commission aims to implement fair corporate taxation in the country where the company in question generates their profits.
  The Country-by-Country Reporting (CbCR) concept is to demonstrate that large corporations are paying a fair amount of tax.
- Before the introduction of Country-by-Country Reporting, the European Commission made targeted consultations in order to be able to envisage all possible options
- The European Commission proposed a Directive on the 12th April 2016, which introduces public reporting requirements. Its aim is to target companies with more than €750 million per year in revenue, doing business in the EU, wherever the parent company is. The same CbCR requirements would apply as soon as organisations have business activities in the EU.

- The Country-by-Country Reporting was made with the hope of increasing the accountability of multinationals.
- There are mixed views of tax authorities on the need for increased public transparency.
- Complimentary Country-by-Country Reporting encourages the public to scrutinise multinationals. This, in turn, may apply pressure on multinationals to reduce tax avoidance in order to maintain their reputation. Country-by-Country Reporting may also lead to the uncovering of legislative loopholes and unearthing the causes and consequences of tax avoidance.
- The European Commission is proposing a one-year implementation period for all member states and between half a year and one year for businesses. The first Country-by-Country Reporting can be expected by fiscal year 2018
- Growing trend in responsible investments is likely to continue with the introduction of Country-by-Country Reporting and is gaining traction.
- If transparency is organised, it has the ability to remove certain risks including for companies.
- The idea behind the Country-by-Country Reporting is to get citizens closer to businesses and to restore trust.
- The Country-by-Country Reporting shouldn't be there to determine the amount of tax to be paid, but it is a tool to start tax auditing.
- The new requirements build on the CBCR to be filed by companies as part of the transfer pricing documentation.
- The Country-by-Country Reporting needs limits and should be designed to not damage competition whilst also setting the tone at the top of the corporate ladder
- Relationships with non EU countries need to be considered as well.
- Country-by-Country Reporting is not about issuing punishments, but to restore trust.
- The costs of implementing should be minimal

Jonathan Blackhurst, Head of Risk Management at Capita (UK)

- From a Risk Management point of view, the sector needs to wake up and evolve its role in organisations
- Country-by-Country Reporting is likely to bring a grey area of risk which will mean questions at strategic level; they will need to be asked by the Risk Management department.
- Country-by-Country Reporting is not only about the numbers, but also about how well it is delivered (right process, right report). Risk

managers make sure that figures have a context, that people have the full spectrum of the firm's value chain.

- Companies can either just comply with the new rules (i.e. reporting) or try to use the CbCR reporting as part of their strategy to increase public confidence. But how quickly can firms turn it into an opportunity?
- Risk Management needs to be part of the strategic level of an organisation, as they need their advice to be heeded at a high level in the organisation. Risk Management may need to reach outside its comfort zone from time to time.
- There will be an increase in reputational risk, as it will be a challenge to determine whether or not the public will believe that you have paid enough tax or not, as figures can be sensationalised when taken out of context.
- The public perception of corporate conduct is especially important and will depend on how willing the company is to comply with the regulations.
- To remove the risk of scrutiny, organisations will need to ask themselves: are we doing enough?
- Firms need to consider their political balance – what should they prioritise reputation vs. cost.
- There will be a need for 'corporate soul-searching' in order to determine the level of compliance and honesty that will be taken when dealing with the Country-by-Country Reporting.
- Conduct is a big issue and will depend on the 'soul searching' of the company as these firms hold social responsibilities for their respective countries
- Loopholes in the system may become uncovered as a result of Country-by-Country Reporting but new ones will undoubtedly appear.
- Unfortunately, large organisations will then be dependent on how and when these loopholes can be solved. This creates uncertainty for the current activities and planned investments.
- The new proposal eliminates standardised wording as context is now required, which provides an opportunity for organisations to present themselves to the public in a particular manner.

Silvio de Girolamo, Chief Audit Executive Autogrill (Italy)

- The relationship between the public and businesses needs to be encouraged. Transparency will have the potential to inspire confidence in business if done correctly.
- The Internal Auditors are in the best position to implement this and are in a position to provide an independent assurance on the outcome and

process of country by country reporting, the corporate culture and the way risks are managed.

- As the third line of defence in organizations and depending on the maturity of the taxes processes, internal audit may provide assurance about the reporting or function as an adviser.
  Internal audit will coordinate its efforts with the CRO, the Tax Manager in order to ensure a proper coverage, minimize duplication of efforts and provide a combined assurance to the Governing Body.
- In reviewing the corporate culture, internal audit will review for example how companies manage seriously some matters rather than others, how the tone at the top looks like.
- Information should also be provided for the non-financial aspects of the company, which goes in accordance with the current trend of the increase in the amount of information provided. This can improve company management and performance.
- Internal Auditors may play various roles in these new requirements : they can assist the companies implementing the new rules (advisory role) or they give an independent assurance about the new reporting process (evaluation of the internal controls, risks and governance aspects)
- Company reporting should also include socio-environmental matters in order to give the European Commission and the public an idea as what the company's tax strategy is and allow better understanding and communication. The strategy is important and not just the results (the reporting).

Remarks from the audience

- Slovak presidency insists on the definition of tax avoidance and aggressive tax planning. These aspects must be tackled after the country by country reporting issues that is the first step.
- Working Parties are taking place in order to gather the views of member states.
- Question of the costs incurred by the new requirements and supported by the organisations
- If a high level of technical information is disclosed, organisations will need to mitigate the risk of misinterpretation that could harm the reputation of an organisation
- It must be clearly stated that the intention is not to turn every citizen into a "tax inspector"
- A voluntary mechanism would allow a positive selection of organisations wanting to engage into CbCR

Concluding Remarks

- The EU needs to play a strong role on the global stage for tax justice
- The US and the EU should come together in order to implement these new and improved standards
- Providing more minimum standards can provide a benchmark for organisations worldwide
- The close cooperation of the OECD, the EU and the US is very positive
- In the long-run, these proposals can benefit businesses if we continue in this direction as competition can improve, transparency will increase and the markets will be more efficient.
- How taxes are enforced is a concern for everyday citizens

ABOUT THE ORGANISERS

ECIIA: European Confederation of Institutes of Internal Auditing http://www.eciia.eu/
FERMA: Federation of European Risk Managements Associations http://www.ferma.eu