March 15, 2019

Judy Kuszewski
Chair, Global Sustainability Standards Board
c/o Global Reporting Initiative
Barbara Strozzilaan 336
1083 HN Amsterdam
The Netherlands

RE: Exposure Draft of GRI Topic-Specific Standard: Tax and Payments to Governments

Dear Chair Kuszewski,

We write in strong support of the exposure draft for the new Global Reporting Initiative (GRI) topic-specific standard, "Tax and Payments to Governments," published for comment by the Global Sustainability Standards Board.

As institutional investors, we support increased transparency in tax reporting by multinational corporations to enable us to appropriately assess and manage risks to our investments and to the broader economy as a whole. The proposed GRI standard supplies a much needed set of principles to strengthen the current state of opaque and unhelpful tax reporting by multinational corporations.

Investor Risk

The tax practices of large, multinational corporations have come under increasing scrutiny and criticism by the international community. Aggressive tax practices have put Apple, Amazon, Caterpillar, Chevron, Facebook, Google, Hewlett-Packard, McDonald's, Microsoft, Nike, Shell, Starbucks, and many other multinationals at odds with tax authorities in recent years. Apple's dispute with the European Union, at $US 14 billion, has received the most notoriety but is far from the only significant tax dispute. Caterpillar is facing a $US 2 billion tax assessment in the United States, and Facebook recently settled a challenge by the U.S. Internal Revenue Service (IRS) that could have cost it as much as 50% of a full year's profits. The LuxLeaks scandal has disclosed hundreds of other multinationals engaged in aggressive tax schemes within Europe. Trillions of tax dollars are at stake overall.

In 2013, Organization for Economic Cooperation and Development (OECD) countries agreed to require large multinational corporations to report certain information on a country-by country basis to their home country tax authorities. In the United States, the first reports were filed in 2018. In early February 2019, the IRS released an analysis of the data, to be filed under the OECD agreement. According to the IRS, 229 U.S. multinational corporations reported more profit in Bermuda ($US 24.9 billion), the Bahamas ($US 21.8 billion) and the Cayman Islands ($US 23.7 billion) than in China, Canada or Mexico, the three largest U.S. trading partners.

The data shows that the amounts of money are significant. and the growing doubt as to the continued viability of such practices necessitates greater transparency.

Currently, companies themselves have access to revenue, profit, tax and other information on a country by country level. Through the OECD's initiative, tax authorities now have this information as well. Seemingly, the only stakeholders that currently do not have access are the ones putting their funds at risk.

Economic Risk

Corporate tax dodging creates investor risk not just by inviting enforcement actions to collect unpaid taxes and penalties, but also by depriving emerging and established economies of revenues needed for economic advancement. Without corporate tax revenues, governments may have to forego investments in such matters as infrastructure, workforce development, social spending or court systems. In less developed economies, corporate tax avoidance could contribute to the type of poverty or unrest that endangers investments in those countries.

As the GRI correctly notes: "Tax and payments to governments are important sources of government revenue which in turn are acknowledged by the United Nations to play a vital role in advancing the achievements of the Sustainable Development Goals." The GRI also states that multinationals "have a responsibility to comply with tax legislation and to meet stakeholder expectations of good tax practices."

The GRI proposed standard strikes an appropriate balance between needed disclosures to stakeholders and the costs of implementation to filers. It is a critical step toward greater corporate tax transparency which, in turn, will strengthen the safety, soundness, and sustainability of both individual corporations and the global economy. For long-term investors, in particular, it offers necessary information to reduce investment risks. We urge the GRI working group to move forward with finalizing the standard without diluting the information to be provided in the proposed disclosure framework.

The Proposed Standard

We agree with the proposed standard's call for more information on companies' approaches to tax. Current disclosures on tax principles and planning are often so vague they provide little to no helpful information to investors. A 2018 review by the FACT Coalition of more than 25 corporate narratives on potential tax liabilities found in each case the corporation essentially informed investors that it operates in multiple jurisdictions, that tax laws may change in any of those jurisdictions, and that changes could impact earnings. Period. For example, a recent representative filing by Merck & Company began:

> "*The Company is subject to evolving and complex tax laws, which may result in additional liabilities that may affect results of operations."*

GRI has rightfully called for more useful, readily known (within the company) information about risk tolerance and risk appetite in tax planning. That is the type of tax information that investors need but to which they currently have no access. Does the company pay taxes where value is created? Does it tolerate the use of aggressive tax practices to minimize its tax liability? Does it prioritize following the 'letter of the law' or focus more on the spirit of the law and

legislative intent? Those are important questions for investors attempting to gauge risk, and some corporations have already begun to report that type of information.

We also enthusiastically support the proposed provisions regarding information on the governance process for developing tax strategies and the discussion of a company's approach to stakeholder engagement, including investors.

The proposed standard would require tax reporting for all countries in which a corporation operates, a common-sense and even-handed approach that avoids a host of difficult questions regarding which countries merit reporting and why. Importantly, the proposal would also require data on entities that are tax residents of no jurisdiction (aka stateless entities). The latter, in particular, presents increased risks for future claw backs (e.g., Apple) and unknown tax liability in multiple countries. If for some reason, companies do not have all the information required for a specific country, they should be required to explain why.

In order for investors to properly assess risk, we support the requirement to publicly list all tax jurisdictions in which the company has entities and, on a country-by-country level, report:

1. Number of entities
2. Names of principal entities
3. Primary activities of entities
4. Number of employees
5. Total revenues broken out by third-party sales and intra-group transactions of the tax jurisdiction and other tax jurisdictions
6. Profit/loss before tax
7. Tangible assets other than cash and cash equivalents
8. Corporate tax paid on a cash basis
9. Corporate tax accrued on profit/loss
10. Reasons for any difference between corporate tax accrued on profit/loss and: (a) the tax due if the statutory tax rate is applied to profit/loss, and (b) the tax due if the statutory tax rate is applied to profit/loss before tax
11. Significant tax incentives

One additional detail that may be helpful is to request that each entity identify both the jurisdiction where it is incorporated and where it is a tax resident. It is those questions that disclosed the existence of the Apple subsidiaries that were incorporated in Ireland but had no tax residence there or anywhere else.

A number of the proposed data elements are similar to the data that large multinationals are now providing to local tax authorities under the OECD agreement. While we recognize that statements prepared using Generally Accepted Accounting Principles and those prepared for the IRS are different, the underlying data is the same and, as such, the proposed data elements in the GRI standard should lead to only modest incremental costs to calculate.

In fact, in response to a 2017 proposal (albeit more modest) by the Financial Accounting Standards Board to strengthen tax reporting, several accounting firms stated as much in their comments. For example, Deloitte commented that:

> *"While we defer to preparers' views on the potential incremental costs of the proposed disclosures, we do not believe that the incremental costs would be significant."*

Deloitte went on to say:

> *"While we defer to preparers' views on the time they would need to implement the guidance, we do not believe that an entity would require a long transition period because the additional disclosure requirements are generally straightforward; the entity is likely to have the information readily available; and few, if any, changes are likely to be required to the entity's systems."*

A global economy with few barriers to cross border financial flows requires new due diligence on the part of investors to fully understand risk. Access to this type of information will assist us in fulfilling our responsibilities. Cultural and legal changes to tax policy require greater transparency. The opacity of multinational corporate tax strategies that result in aggressive transfer pricing and potentially high risk profit shifting is no longer an acceptable way of doing business. The expensive enforcement actions and reputational damage that may follow are risks that investors should be able to gauge and decide for themselves their own risk tolerance.

GRI's proposal is a critical step forward to strengthening investor protections, and we encourage you to move to finalize and adopt its important transparency standards.

Thank you for your consideration of these comments.

Sincerely,

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
American Federation of State, County and Municipal Employees (AFSCME)
Change to Win Investment Group
Boston Common Asset Management
Decatur Capital Management, Inc.
Domini Impact Investments
First Affirmative Financial Network
Friends Fiduciary Corporation
Harrington Investments, Inc.
Interfaith Center on Corporate Responsibility
International Brotherhood of Teamsters
JLens Investor Network
Maryknoll Fathers and Brothers
Miller/Howard Investment, Inc.
Missionary Oblates Justice, Peace and Integrity of Creation Office
Natural Investments
The New York State Common Retirement Fund
Scherman Foundation
Seventh Generation Interfaith

Sisters of Charity of Saint Elizabeth
Sisters of St. Dominic of Caldwell New Jersey
Sisters of St. Francis of Philadelphia
Stewart Mott Foundation
Tri-State Coalition for Responsible Investment
UAW Retiree Medical Benefits Trust
Wallace Global Fund
Zevin Asset Management