

March 6, 2020

OECD Inclusive Framework  
Base Erosion and Profit Shifting Project  
Email: [taxpublicconsultation@oecd.org](mailto:taxpublicconsultation@oecd.org)

**Re: OECD BEPS Action 13 Public Consultation**

Dear colleagues,

We appreciate the extraordinary efforts of over 100 members of the OECD Inclusive Framework in implementing Action 13 of the OECD's Base Erosion and Profit Shifting Project (BEPS) on Country-by-Country Reporting (CbCR). As investors representing investments totaling \$847 billion, we value this opportunity to offer comments during the 2020 review of this action point.

As 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. Toward that aim, we believe it is time that members of the OECD Inclusive Framework move at all deliberate speed towards full publication of large companies' CbC reporting to provide us and other investors the information we need to make sound decisions when evaluating a corporation's ongoing profitability and financial risk on a country-by-country basis. This is an important strategic and policy matter for investors interested in long-term value creation.

We appreciate the work of countries across the world to make non-public country-by-country reporting, in essence, the law of the land. We agree that tax authorities need this information to do their job. The question is whether investors—who put our money on the line on a daily basis—can also access this information to do ours.

As detailed below, income and tax information at the country-by-country level is what investors require to better understand a company's financial, reputation and economic risks, gauge their level of risk tolerance, and make informed investment decisions.

**Financial Risk**

There are numerous recent examples of multinational corporations at odds with tax authorities, including Apple, Amazon, Caterpillar, Chevron, Facebook, Google, Hewlett-Packard, McDonald's, Microsoft, Nike, Shell, Starbucks, and many others. The evidence strongly suggests a growing trend toward government crack downs on aggressive tax planning used by companies not only to minimize their tax liability, but also to achieve hidden competitive advantages and even generate artificial profits through tax refunds and other tax benefits. Evidence also shows that when governments take action against high-risk corporate tax practices, the financial consequences for the affected corporations can be severe.

Without adequate information, investors may be unaware that companies are taking tax risks that may provide modest short-term benefits but create uncertainty and instability, ultimately damaging medium- and longer-term value. Secrecy may once have allowed aggressive tax planning to continue with impunity. Yet, today, increasing government and public hostility to that type of tax planning has opened the door to heightened risk, putting future profitability and long-term financial stability in jeopardy. Country-level reporting is essential to provide investors with the material information they need to properly assess what is now a largely hidden risk.

If increased disclosures lead some companies to reassess their tax strategies, it will be because management and the board do not believe these practices can survive the scrutiny of the investors who ultimately have the most skin in the game. That outcome provides all the more reason for providing investors with the type of country-level information that will encourage corporate analysis and movement away from hidden, high-risk tax practices.

Indeed, the evidence suggests that hidden tax avoidance may be adverse to corporate bottom lines in both the near and long term. In a 2016 paper, *Do investors care about corporate taxes?* published in the Journal of Corporate Finance, researchers in the United Kingdom found “no discernible link between tax rates and stock returns for the UK, no matter how tax payment is measured. This is true throughout the sample period and for both customer-facing and non-customer-facing companies. However, allowing for industry norms and a host of firm characteristics, companies with lower effective tax rates have significantly higher levels of stock market risk.”<sup>1</sup>

Indeed, many investors have reached the conclusion that hidden tax avoidance is not good for the corporate bottom line, as illustrated by the greater tax disclosures advocated in recent UN Principles for Responsible Investment (PRI) publications<sup>2</sup> and the final Global Reporting Initiative (GRI) 207 Tax Standard.<sup>3</sup>

## **Reputational Risk**

We also challenge the notion that secrecy protects multinational companies from reputational risk. In fact, transparency may help defray risk by removing any element of surprise and the appearance of scandal especially when limited information is unexpectedly revealed. When companies are seen to be open and forthcoming -- when they get ahead of ‘the leak’ and present the information in context to tell their own story -- there is much less of a chance the information will spark a public backlash.

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<sup>1</sup> Brooks et al., ‘Do investors care about corporate taxes?’ Journal of Corporate Finance, Vo. 38, June 2016, pps. 218-248 at <https://doi.org/10.1016/j.jcorpfin.2016.01.013>

<sup>2</sup> PRI publishes a set of recommended principles that companies should adopt to be perceived as sustainable and responsible. The list includes guidelines on reporting tax information transparently on a country-by-country basis. See more: Principles for Responsible Investment. “Investors’ Recommendations,” <https://www.unpri.org/governance-issues/recommendations-onevaluating-corporate-tax-transparency-/3136.article>

<sup>3</sup> Global Reporting Initiative 207: Tax Standard, <https://www.globalreporting.org/standards/gri-standards-download-center/gri-207-tax-2019/>

## **Economic Risk**

The global economy has opened new, geographically diverse markets to multinational corporations and exciting new opportunities for investors. Any number of companies cite access to foreign markets as a significant driver of growth.

Emerging markets, in particular, are a driver of growth and will remain so as long as the economies of those countries remain viable. Improved infrastructure, rule of law, and the provision of basic services are integral to a functioning economy. In fact, the Commission on Growth and Development, led by Nobel laureate economist Michael Spence, found that countries with the best growth performance invested higher percentages of their GDP in public services than less well performing economies.<sup>4</sup> As a result, stable revenue sources are critical to market growth.

To better assess and manage risk, investors need to know in which countries a company is operating and what are the company's topline financial commitments and tax arrangements. Country-by-country corporate tax disclosures will help identify countries that are facilitating corporate tax dodging and thereby expose tax risks currently hidden from investors.

## **Global Accounting Trends**

Growing support among multiple sectors of the investment and business communities around the world point toward the need for increased corporate tax disclosures on a country-by-country basis, with examples including:

- Norges Bank Investment Management, which manages the Norwegian sovereign wealth fund with approximately US\$915 billion in assets under management, has stated that “multinational enterprises should publish country-by-country breakdowns of how and where their business model generates economic value, where that value is taxed and the amount of tax paid.”<sup>5</sup>
- The United Nations' Principles for Responsible Investment, a network representing investors with more than US\$70 trillion in assets under management, has urged companies to publish tax information on a country-by-country basis and to become more transparent on their overall approach to tax policy and how their tax policy interacts with their broader business and sustainability strategies.<sup>6</sup>

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<sup>4</sup> Commission on Growth and Development, “The Growth Report: Strategies for Sustained Growth and Inclusive Development Report,” The World Bank, 2008 at <http://bit.ly/2MmV61t>

<sup>5</sup> Norges Bank Investment Management, “Tax and Transparency: Expectations towards companies” at <https://www.nbim.no/en/the-fund/responsible-investment/principles/expectations-to-companies/tax-and-transparency/>

<sup>6</sup> United Nations Principles for Responsible Investment, ‘Evaluating and Engaging on Corporate Tax Transparency: An Investor Guide’ at <https://www.unpri.org/download?ac=4668>

- The Certified Financial Analysts' Institute, with 137,000 members in 150 countries, highlighted the importance of tax disclosures as a vital source of information for investors in comments to the Financial Standards Accounting Board.<sup>7</sup>
- The Global Reporting Initiative (GRI), a standard-setting body that lists around 80 percent of NASDAQ 250 companies and roughly 13,000 different entities as adhering to its reporting guidelines, recently launched its new tax transparency reporting standard that include public country-by-country reporting.<sup>8</sup> This standard was widely supported by investors.<sup>9</sup>

These steps establish a growing global momentum that public and investor access to corporate tax transparency at a country-level is inevitable. We urge members in the OECD's Inclusive Framework to heed - rather than resist - the voices of investors and analysts calling for greater corporate tax disclosures.

### **A More Useful Technical Standard**

While there are certainly pros and cons of the current disclosure regime under Action 13, we believe a more useful approach, supported by numerous investors, is the reporting standard set out by the Global Reporting Initiative in its Tax Standard referenced above.

We thank you for your consideration of our views.

Sincerely,

AFL-CIO

American Federation of State, County and Municipal Employees (AFSCME)

American Federation of Teachers

BMO Global Asset Management

Boston Common Asset Management

CtW Investment Group

Domini Impact Investments LLC

Etica Sgr - Responsible Investments

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<sup>7</sup> Letter from Vincent Papa and Tony Sondhi, CFA Institute, to Chairman Russell Golden, FASB, Oct. 25, 2016, at [https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175834119493&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=833120&blobheadervalue1=filename%3DDISFR\\_TAX.ED.0046.CFA\\_INSTITUTE\\_CDPC\\_VI NCENT\\_PAPA\\_TONY\\_SONDHI.pdf&blobcol=urldata&blobtable=MungoBlobs](https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175834119493&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=833120&blobheadervalue1=filename%3DDISFR_TAX.ED.0046.CFA_INSTITUTE_CDPC_VI NCENT_PAPA_TONY_SONDHI.pdf&blobcol=urldata&blobtable=MungoBlobs)

<sup>8</sup> GRI 207: Tax at <https://www.globalreporting.org/standards/gri-standards-download-center/gri-207-tax-2019/>

<sup>9</sup> Financial Times, 'Investment groups want companies to disclose global taxes' at <https://www.ft.com/content/d84eeafc-16c6-11ea-9ee4-11f260415385>

Franciscan Sisters of Perpetual Adoration  
Interfaith Center on Corporate Responsibility  
International Brotherhood of Teamsters  
Investor Advocates for Social Justice  
JLens  
Local Authority Pension Fund Forum  
Maryknoll Fathers and Brothers  
Maryknoll Sisters  
Missionary Oblates/OIPTrust  
Oxfam America  
Seventh Generation Interfaith Coalition for Responsible Investment  
Sisters of St. Francis of Philadelphia  
The Province of Saint Joseph of the Capuchin Order  
UAW Retiree Medical Benefits Trust  
UFCW Pension Plan for Employees  
Zevin Asset Management