

# PRI RESPONSE

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## AUSTRALIAN TREASURY CONSULTATION: PUBLIC COUNTRY-BY-COUNTRY REPORTING

April 2023

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To inform this briefing, the following investor group has been consulted: PRI Tax Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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## ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI has been working with institutional investors to promote corporate tax responsibility since 2015. We initiated our work with a [guide](#) to help investors understand the risks related to tax avoidance and provide a framework for investor-company dialogue on the issue. In 2017, the PRI supplemented this guidance with a set of [disclosure recommendations](#) for companies to strengthen corporate income tax disclosure on tax policy, governance and risk management, and reporting areas. Between 2017-19, 36 institutional investors representing US\$2.9 trillion in assets under management collaborated to engage large healthcare and information technology companies to enhance corporate tax transparency. The findings of this engagement are published on [PRI's website](#). In 2021, the PRI published a [discussion paper](#) to explore the concept of tax fairness and its relevance to investors.

## ABOUT THIS CONSULTATION

As part of the October 2022-23 Budget, the Australian government announced a transparency measure for multinational entities to publicly disclose certain tax information on a country-by-country basis and a statement on their approach to taxation. The measure will enhance the tax information entities disclose to the public (for income years commencing from 1 July 2023).

In April 2023, the Australian Treasury published its [draft legislation](#) on multinational tax transparency reporting and is [seeking stakeholders' views](#).

The PRI submitted a [response](#) to the previous consultation on [multinational enterprise tax integrity and transparency proposals](#) which was held in August 2022.

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## PRI RESPONSE

The PRI welcomes the proposed [draft legislation](#). This proposal positions Australia as a leader in efforts to achieve greater tax transparency globally by making Australia the first jurisdiction to mandate the public disclosure of full country-by-country (CBC) information.

As companies remain reluctant to provide<sup>1</sup> or discuss<sup>2</sup> CBC information with investors, the introduction of mandatory requirements by the Australian Treasury will have a significant positive impact on investors' ability to assess the risk profile of an entity's tax affairs and incorporate tax issues in their decision-making processes.

The PRI strongly supports the alignment between the draft legislation country-by-country (CBC) information requirements with the 207- 4 CBC requirements of the [GRI 207 standard](#). A broad range of stakeholders, including investors<sup>3</sup> provided input into the design of the GRI 207 standard. It is also positive to note the significant alignment of the GRI 207 standard with the OECD BEPS Action 13. The PRI believes this will minimise the compliance burden for entities and avoid the emergence of various CBC reporting formats.

The PRI strongly welcomes the requirements that CBC information should be reported for all jurisdictions of operation. This level of disaggregation will provide much needed clarity on operations in lower tax jurisdictions and other higher risk transactions. If Treasury needs to address concerns by the reporting entity that CBC information would reveal sensitive information, any exemption to the requirements should only be provided on a limited basis and accompanied by careful monitoring. Widespread exemptions would be misaligned with the objective of creating a level playing field, and result in inconsistent data.

We note that entities can choose to supplement these mandatory disclosures by voluntarily publishing additional qualitative information to provide context and narrative and assist investors and other stakeholders in interpreting and appraising the CBC information.

Because of the growing momentum on tax transparency, it is important that investors have access to this information as soon as practically feasible for entities. The proposed effective date for income years starting after July 2023 is reasonable as most affected companies already collect and disclose CBC information under OECD Action 13 BEPS.

A new paradigm on tax reporting will significantly enhance stakeholders' understanding of corporate tax activities and contribute to a more informed dialogue between corporates and investors.

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<sup>1</sup> [World Benchmarking alliance 2022 study](#) of 1000 influential companies showed that 9% of companies disclose CBC information

<sup>2</sup> None of the companies engaged as part of [PRI's collaborative engagement](#) on tax responded to investors demands on the disclosure of public CBC information

<sup>3</sup> <https://www.globalreporting.org/media/amyaycyg/gri-perspective-we-need-to-talk-about-tax.pdf>