Director
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Corporate and International Tax Division
Treasury
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Milan, 22nd February 2024

Consultation on Public country-by-country reporting - February 2024

Etica Sgr is an Italian asset manager that, since its establishment in 2000, offers only sustainable and responsible mutual funds. Etica's mission is to "represent the values of ethical finance in financial markets and promote socially responsible investment and corporate social responsibility" (art. 4, company bylaws). Etica manages assets worth over Eur 7 bn on behalf of over 450,000 clients.
We are a member of the PRI network since 2009 and we are part of PRI's reference tax group.

Etica is engaging companies on tax transparency since 2018.
In 2017, Etica participated in the collaborative engagement on corporate tax transparency organized by the PRI. In 2023, we filed a shareholder resolution at the AGM of US based multinational Cisco Systems, requesting the company to publish information in line with GRI 207 standard on tax: our resolution was supported by over 25% of shareholders.

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 Treasury is currently seeking feedback on its exposure draft which seeks to more closely align its proposed country-by-country reporting regime with the European Union's regime and includes deferring the start date by 12 months (to 1 July 2024). The Treasury has consulted stakeholders on two previous occasions. Etica submitted a response to the second consultation held in April 2023 where a first draft legislation was presented.

Since the start of our dialogue with companies on tax responsibility in 2018, Etica has consistently recommended that Country-by-Country (CBC) information is reported for all jurisdictions of operation. In line with our collaboration with the PRI on this topic, we believe this information is practical for large multinationals to disclose and represents the most appropriate level of granularity to investors to help them:

- understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities;
- assess income tax information that affects cash flow forecasts and capital allocation decisions;
- examine the economic scale of operations in different jurisdictions, identify those companies that are best prepared for upcoming regulatory changes and withstand increased scrutiny at the jurisdictional level;
- raise questions with companies where tax structures and strategies might not align with economic value generated and therefore, might lead to higher exposure to risks of challenges by tax authorities;

- gain a better understanding of corporates tax practices, overall contributing to a more informed dialogue between corporates and investors[1].

We therefore reiterate our support for full CBC reporting consistent with the GRI 207-4 and the EU and OECD reporting regimes. Our recommendation is in line with our recommendations to the EU. In 2021 the PRI sent a letter undersigned by Etica and other investors representing US$5.6trn in assets under management calling on the EU to require multinational companies to provide CBC information for all countries of operation.

The Treasury has identified forty-one jurisdictions for which entities will have to disclose CBC information. We welcome the high number of jurisdictions included on the list as it increases the level of information published. We would have expressed more reservations if the list did not include significant jurisdictions that may be "associated with tax incentives, tax secrecy and other matters likely to facilitate profit shifting activities" were omitted. Investors need to understand how a company's presence in such jurisdictions are based on genuine and legitimate business needs. CBC information can provide reassurance to investors that a company's tax affairs are more likely to withstand increasing stakeholder and regulatory scrutiny.

As an investor, we need information for all countries of operation as tax related risks can manifest themselves in any jurisdiction and not just the jurisdictions outlined in the Treasury's list. A tax authority in a high-tax jurisdiction not included on the Treasury's list could challenge a company's transfer pricing practices with related entities located in a low-tax jurisdiction. It is therefore important for us to have a full picture of a company's tax contributions to identify potential patterns of profit shifting from one jurisdiction to another. For this, we need to be able to compare or cross-reference a company's CBC information in a low-tax jurisdiction included on the Treasury's list with CBC information for other high-tax jurisdictions. Without complete CBC information, we will have to make assumptions or raise questions directly with companies, which is costly for both us and businesses.

From a reporting entity perspective, it is in companies' interest to disclose CBC information for all countries of operation as it will help them properly contextualise and explain their tax practices globally and pre-empt any misinterpretation or misrepresentation of their tax footprint. Partial CBC, especially if it is focused on jurisdictions associated with tax incentives or secrecy, might raise more questions than answers on companies' tax practices and this might focus the conversation on these jurisdictions.

We welcome the explicit mention for companies to report on either a CBC basis or an aggregated basis for the rest of the world. We consider this feature to be an improvement from the EU reporting regime. In this spirit, we would be very supportive of introducing a requirement to disclose CBC information for the rest of the world on a comply or explain basis. If companies choose not to disclose information for the rest of the world on a CBC basis, investors would benefit from having a reasonable justification. This will help investors better comprehend companies' motivations and potential concerns around the disclosure of full CBC information and promote mutual understanding.

[1] PRI_Evaluating-and-engaging-on-corporate-tax-transparency_Investor-guide.pdf (unpri.org)
PRI Advancing tax transparency: outcomes from the PRI collaborative engagement

We also welcome the request to publish a description of the country by country reporting group's approach to tax.

We recommend that the Treasury proceeds with the implementation of its proposed approach and applaud the Treasury for its continued focus on improving tax transparency. This partial disclosure regime will still help advance tax transparency and will provide some level of much-needed information that will allow us to make more informed assessments. However, we maintain our initial recommendation that the Treasury should consider full CBC reporting and, if deemed not appropriate at this stage, mandate full CBC reporting on a comply or explain basis. This approach can prepare businesses for full CBC in the future.

Sincerely,
Aldo Bonati
Stewardship and ESG Networks Manager