Dear [],

Re: DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches

About the PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world’s leading initiative on responsible investment. The PRI represents over 1700 signatories globally with $65 trillion in assets under management. There are over 900 signatories in Europe, of whom 195 are asset owners.

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It is driven by a growing recognition in the financial community that evaluation of ESG issues is a fundamental part of assessing portfolio value and investment performance.

Background

On 12 April 2016, the European Commission released a proposal for amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches. The Directive has the objective of enhancing transparency and public scrutiny on corporate income tax. It requires multinational companies with consolidated net turnover of EUR 750 million to publicly report country by country information for operations within the EU and in certain tax jurisdictions that pose particular challenges.

Summary response

The PRI, working with a taskforce of investors, has developed a series of recommendations for enhancing corporate tax transparency. We encourage you to consider the following:

- establishing a comprehensive disclosure regime for corporations including details of tax policy, governance, risk management and performance. Further details are provided below.
- aligning future disclosure requirements with evolving international standards on Country by Country Reporting (CbCR).
PRI work stream on tax

Corporate tax responsibility is a key area of interest for the responsible investment community and the PRI initiative.1

An aggressive corporate approach to tax planning is a concern to investors as it can create earnings risk and lead to governance problems, damage reputation and brand value and cause macroeconomic and societal distortions. Aggressive tax planning is a key systemic risk that can have a serious effect on the profitability and sustainability of a company, as well as broader impacts on portfolio returns.

The PRI has convened the investor taskforce on tax responsibility to facilitate better understanding of tax related risks and encourage further dialogue with investee companies.

The taskforce has developed a series of recommendations on corporate income tax disclosure, focusing on tax policy, governance and risk management and performance (see copy attached). The document recommends comprehensive corporate disclosures that would:

■ include a tax policy signed by a board-level representative outlining the company’s approach to taxation and how this approach is aligned with its business and sustainability strategy;

■ provide evidence of tax governance as part of the risk oversight mandate of the board and management of the tax policy and related risks;

■ give an overview of tax strategies, tax-related risks, intercompany debt balances, material tax incentives, country by country activities and current disputes with tax authorities.

Better disclosure on companies’ tax practices will allow investors to understand how corporate boards identify tax related risks and respond to government and other stakeholders’ expectations.

The PRI recommends that these issues are considered as you formulate your response to the European Commission’s proposal for a Directive on Country by Country Reporting.

Country by country reporting

The PRI commends the EU Commission’s efforts and proposal for a directive on public CbCR to enhance corporate tax transparency. The current level of corporate reporting on tax is often insufficient to evaluate risks related to corporate tax strategies. With this intent, the PRI-led taskforce is actively encouraging country by country reporting from companies, including a list of all subsidiaries and their business nature.

Investors need to understand an organization or corporate structure, the business nature of existing subsidiaries, as well as the overall approach to the use of secrecy jurisdictions.

The PRI recommends that future disclosure requirements are aligned with evolving international standards on country by country reporting to the highest degree possible (e.g. the OECD- Base Erosion and Profit Shifting project and relevant template for Country by Country reports).

1 As outlined by the results of the 2016 PRI survey results on signatory satisfaction and engagement.
This would entail asking companies for:

- Additional information on revenues, taxes paid, FTE employees, net income and assets across all countries
- List of all the constituent entities included in each aggregation per tax jurisdiction.

Aggressive corporate tax practices are material risks for investors. We encourage you to support increased transparency.

If you would like to receive more information about our work on this issue or discuss it in a meeting, we would be happy to coordinate this whenever suitable for you.

Yours sincerely,

Fiona Reynolds
Managing Director