FINANCIAL TRANSPARENCY COALITION

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The Honorable Jeb Hensarling
Chairman, House Financial Services Committee
2228 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, House Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515

The Honorable Mark Pocan
Member of the House of Representatives
313 Cannon House Office Building
Washington, DC 20515

Dear Chairman Hensarling, Ranking Member Waters, and Congressman Pocan,

The Financial Transparency Coalition (FTC) is a global network of nonprofit organizations, governments, and experts working together to curtail illicit financial flows. We are writing today to express our strong support for the **Corporate Transparency and Accountability Act**.

As a global network, we believe greater transparency in reporting of accounting information by multinational corporations (MNCs) is key to addressing transfer mispricing, tax abuse and corruption by MNCs that contribute to illicit outflows. We urge you to mandate companies to provide a complete picture of their offshore operations by requiring them to publish key financial, tax and operational data on a country-by-country basis. In other words, companies should be required to publicly disclose their revenue, profit before income tax, total income tax paid on a cash basis, total accrued income tax expense, total employees book value of tangible assets and additional important financial data on a country-by-country basis.

The current global standard developed by the Organisation for Economic Co-operation and Development (OECD) presently only requires MNCs to provide these country-by-country reports to tax authorities. However, with the increasing public outcry over the continued scandals involving tax dodging by MNCs, the political momentum globally is now moving towards ensuring this information is publicly available to both address the issue more effectively and build public trust.

Recently, the UK Parliament introduced an amendment in their Finance Bill that allows the government to require MNCs to publish country-by-country reports[1]. In May 2016, 12 countries supported development of global commitment to public country by country reporting[2]. In the coming months, European Union member states are set to begin discussions on mandating public country by

[1] http://www.bbc.com/news/uk-politics-37281446
[2] Countries include Nigeria, Afghanistan, Georgia, India, Russia, France, Italy, Netherlands, Spain, Mexico, Australia, and the UK. https://www.gov.uk/government/topical-events/anti-corruption-summit-london-2016

country reporting. The EU has required public country by country reporting for banks since 2015, with no reported negative impact so far.

The United States has in fact been at the forefront of recognizing the potential of such a transparency measure, by requiring oil, gas and mining companies to file an annual report to the Securities and Exchange Commission to disclose their country and project-level payments to host governments.[3] Following the US Dodd-Frank Act, over 30 countries/jurisdictions have now adopted laws requiring similar public country-by-country reporting for extractives projects, among them the European Union, Canada and Norway.

Public disclosure of detailed, disaggregated financial information will help investors better assess risks of investing in companies employing aggressive tax avoidance strategies and the resulting financial exposure from a crackdown on such strategies. It would help legislators in understanding what loopholes need to be addressed and pursuing relevant legislative amendments. It would also go a long way to restore public trust by empowering citizens to participate in a more informed public debate on financial activities of corporations.

It would also have a positive impact in developing countries, where corporate tax revenues make up a relatively large share of total tax base and the effects of aggressive tax planning are felt more disproportionately. IMF has noted that the effects of base erosion and profit shifting 'may be noticeably stronger for non-OECD countries than for OECD countries, and statistically more significant.'[4] This would also strongly support the implementation of commitments made in the Sustainable Development Goals (SDGs) and Financing for Development (FfD) on curtailing illicit financial flows.

The Report of the UN Economic Commission for Africa's High Level Panel on Illicit Financial Flows from Africa also recommends that countries adopt public country by country reporting and notes the lack of policy coherence as a victim of illicit financial flows. 'It is somewhat contradictory for developed countries to continue to provide technical assistance and development aid (though at lower levels) to Africa while at the same time maintaining tax rules that enable the bleeding of the continent's resources through illicit financial outflows.'[5]

Thank you for your leadership on this globally important issue. We hope the U.S. will join the growing international consensus in favor of requiring companies to publicly disclose key operational data on a country-by-country basis.

Regards,

Porter McConnell
Director
Financial Transparency Coalition

[3] Section 1504 (extractive industries payment transparency) of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.
[4] https://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf, p. 23.
[5] http://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf, p 60.