

tax justice network

Financial Crisis Advisory Group International Accounting Standards Board 1st Floor, 30 Cannon Street London EC4M 6XH

24 March 2009

Dear Sir

Financial Crisis Advisory Group - Input from Constituents

We note your request for comment from constituents published on 10 March 2009 and comment as follows:

- 1. From our perspective general-purpose financial reporting as currently promoted by the IASB has not helped identify issues of concern during the current financial crisis. In particular, the current structure of consolidated financial statements which means that more than 60% of world trade is hidden from view as it is undertaken on an intra-group basis has been particularly harmful. As a consequence of this approach to accounting we have not known:
- In which countries multinational corporations (MNC) operate;
- · What an MNC is called in each location in which it operates;
- · What an MNC's financial performance is in every country in which it operates, identifying both third party and intra-group trade as well as labour costs and head count;
- · How much tax (and other benefits) it pays to government locally as a consequence.

The absence of this data has created considerable opacity within the world financial markets which we believe led to the crisis of confidence within the world's banks and their reluctance to lend to many commercial organisations currently requesting facilities.

reply to:

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- 2. In our opinion this issue is of considerably greater importance than the absence of 'through the cycle' provisioning when assessing the impact of deficiencies in general-purpose financial statements on the world financial crisis. This is because the absence of country by country information of the type noted above is a fundamental failure in the reporting process but the absence of 'through the cycle provisioning' represents the omission of an indication of the subjective opinion of the management.
- 3. We share the opinion of some FCAG members who have indicated that they believe issues surrounding off balance sheet accounting and securitisation are more important than issues surrounding fair value accounting. We have no doubt that the opacity created by off balance sheet accounting, and the opacity of the tax haven structures used for securitisation that were in the main omitted from declaration were in combination a significant factor in creating the fundamental failure of confidence within the world's financial system that occurred in the financial markets in August 2007. We believe that off balance sheet accounting and the use of all artificial entities associated with such mechanisms should be banned.

Our present concern is that the focus of the International Accounting Standards Board is too narrow when considering responses to the current international financial crisis. This is because we believe that the Board is not properly fulfilling its mandate by considering that present and potential capital providers are the primary user group for general purpose financial reporting. The international accounting standard is required to promote global accounting standards in the public interest and in our opinion it must, if it is to fulfil this requirement promote standards for general purpose financial reporting that meet the needs of both 'participants in the world's capital markets **and other users'** as the International Accounting Standards Committee

constitution states it should (our emphasis added).

We have argued that this can be best done by requiring an MNC to provide users with segment data on a country-by-country basis disclosing, as a minimum, that information noted in paragraph (1) above.

In saying this we do not dispute the value of consolidated financial reports to the users of general purpose financial statements. They need that data to form one objective view of the trading of the group in which they have invested, or might invest. We do however want to place on record our concern about the limitations inherent within consolidated financial statements and in particular that they do not:

- 1. Disclose the extent of intra-group trading within the reporting entity;
- 2. Allocate the trading of the entity to geographic domains, and as such prevent risk assessment on this basis being undertaken;
- 3. Show the sustainability of the profit allocations to enterprises within the entity, or the sustainability of the tax charge because its location of payment is unknown;

4. Show vital information required by those trading locally with the entity. This means that suppliers, employees and customers located in a particular country do not have the information they need about trading with local group members, much of which is also not available to them locally because few countries require this information to be readily available to such persons although the International Accounting Standards Board has clearly recognised its obligations to these groups.

For these reasons we strongly suggest that another view of the trading of an MNC is required and suggest this would be best achieved by requiring that the data in consolidated financial statements be reconciled to reporting published on a country-by-country basis.

If this were to be done confidence would be restored in general purpose financial statements, risk in financial markets would be reduced with a consequent lowering in the cost of capital, the now widely recognised problems that tax havens create could be properly assessed and appropriate data to ensure that corporations can demonstrate their commitment to making payment of their taxes in the right place and at the right time would be on public record, all of which is crucial if the vital relationship of trust between the public and MNCs is to be restored.

For all these reasons we commend this course of action to you.

Yours faithfully

John anisam

JE Christensen

Director