

European Commission
DG Internal Market and Services, Financial Reporting
SPA 2, 00/93
1049 Brussels
Belgium

Markt-F3@ec.europa.eu

21 December 2010

Dear Sirs,

European Commission Consultation on Country-by-Country Reporting by Multinational Companies

I am pleased to comment on behalf of European Economic Area member firms of Deloitte Touche Tohmatsu Limited on the European Commission Directorate General for Internal Market and Services Consultation on Country-by-Country Reporting by Multinational Companies (the “Consultation”).

We acknowledge that there is an increasing request from stakeholders such as governments and NGOs for multinational companies to provide financial information on their operations in third countries on a country-by-country basis in their annual financial statements. Hence we commend the Internal Market and Services Directorate of the European Commission (the “Services of DG MARKT”) in its efforts to investigate the most appropriate way to respond to the demand for such increased transparency whilst weighing the cost and benefits of such transparency.

At this time, it is not clear *where* the Services of DG MARKT would seek to propose disclosure of country-by-country financial information on an entity’s activities in third countries. We note that certain organisations have been entrusted with different aspects of financial reporting. Indeed, the IASB (for IFRS financial statements) and EU national standard setters (for EU Member States local GAAP financial statements) are responsible in assessing the need for such a disclosure within financial statements. We would therefore recommend that the Services of DG MARKT liaise with such organisations. In any case, we would contemplate, as further explained below, that if the Services of DG MARKT were ultimately to recommend the presentation of country-by-country financial information, this information would be located either in a section of the annual financial report outside the financial statements or as part of a completely separate report. Alternatively, it may perhaps be provided through XBRL disclosure.

We note that the Services of DG MARKT are evaluating the necessity and appropriateness of two types of country-by-country information: general country-by-country reporting by multinational companies and specific transparency obligations for companies which are active in the extractive industry (minerals, oil and gas) in third countries. Also, multinational companies registered in the European Union are likely to prepare their financial statements under IFRSs. Therefore, we have focused our comments below assuming this basis of preparation for financial statements.

With respect to general country-by-country reporting, the current Framework for the Preparation and Presentation of Financial Statements of the IASB (the “Framework”) establishes that the objective of financial statements is *“to provide information about the financial position, performance and change in financial position of an entity that is useful to a wide range of users in making economic decisions”*. Specifically, IFRS 8 *Operating Segments*, which has been effective for less than two years only, *“requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers. However, the IFRS does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive”* (we refer to IFRS 8.IN7). We also note that the IASB considered requests for a requirement for country-by-country disclosures during the development of IFRS 8 and concluded that *“Because the IFRS is being developed in a short-term convergence project to converge with SFAS 131 [the US GAAP equivalent standard], the Board decided that issues raised by the Publish What You Pay campaign relating to country-by-country disclosures should not be addressed in the IFRS. The Board was of the view that such issues merit further discussion with bodies that are currently engaged in similar issues, for example the United Nations, International Public Sector Accounting Standards Board, International Monetary Fund, World Bank, regional development banks and Financial Stability Forum”* (we refer to IFRS 8.BC50). At this time, having in mind the objective for financial statements as stated in the Framework, we are not aware that the level of disaggregation of segment information under IFRS 8 is considered insufficient. Moreover, we also note that this Framework has been revised in 2010 to state that *“The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit”*. The focus of financial statements and the types of users considered are therefore quite specifically defined.

We understand that the IASB will consider undertaking a post-implementation review of IFRS 8. This may provide an appropriate opportunity to re-evaluate the need for a country-by-country disclosure. We believe that the benefits gained from providing country-by-country disclosure would need to be evaluated carefully taking into account its usefulness as well as the costs necessary to prepare the information, which would be a function of the level of data that would be required (e.g. revenue data versus profit or loss, income taxes, etc.). At this stage, we do not believe that imposing incremental country-by-country disclosure in financial statements prepared under IFRSs is warranted in view of the comprehensive post-implementation review of IFRS 8 planned by the IASB. In addition, it would be necessary to evaluate how this would affect the level playing field of EU multinational companies.

Similarly, we do not believe that specific disclosure for companies which are active in the extractive industry (minerals, oil, and gas) in third countries, such as those proposed in the IASB’s Discussion Paper DP/2010/1 Extractive Activities, should be made mandatory or provided within the financial statements. Consistent with our comment letter to the IASB, dated 30 July 2010 on that Discussion Paper, we believe such disclosures *“extend the use of IFRS financial statements beyond its traditional use by capital providers to a wider group of stakeholders”* and the IASB *“should first develop an appropriate framework for such disclosures – possibly a social reporting or sustainability reporting framework”*.

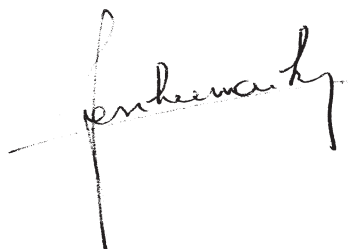
*Comment Letter on The European Commission Directorate General for Internal Market and Services
Public Consultation on Country-by-Country Reporting by Multinational Companies*

We understand the objectives of those seeking specific transparency obligations for companies which are active in the extractive industry (and possibly other industries) in third countries. We would encourage the development of an appropriate framework to facilitate the task of entities that would like to provide this type of information either in the annual report in a section separate from the financial statements or as part of a separate report. We are aware that certain entities already provide such information. The efforts and costs incurred by these entities should not be underestimated. Multinational companies may not necessarily be organised on a country-by-country basis, but rather may operate through legal entities and divisions that cross geographical boundaries. Even if information is available at a country level, the financial reporting basis at that level may differ from that in the consolidated financial statements. In these cases, new data will need to be prepared. This aspect will need to be considered if the Services of DG MARKT pursue this project. The publication of a framework, establishing the nature of the information to be provided and its format, would contribute to ensuring that the efforts of entities that present country-by-country information voluntarily result in information that corresponds to the objectives sought by the various stakeholders. It would also render the information more useful by increasing comparability between those entities that decide to present this information.

Finally, as we stated in our response dated 8 December 2010 to the European Commission Green Paper on 'Audit Policy: Lessons from the Crisis', if there is a demand from stakeholders of multinational companies for audit or assurance services regarding forms of corporate reporting other than financial statements, *"we believe that the profession is willing and able to respond to this demand, provided suitable reporting and assurance frameworks are in place"*.

If you have any questions concerning our comments, please contact me at +32 2 600 6537 or hdescheemaeker@deloitte.com or Laurence Rivat at +33 1 55 61 67 60 or lrvat@deloitte.fr.

Sincerely,

A handwritten signature in black ink, appearing to read 'hdescheemaeker', written in a cursive style.

Hendrik Descheemaeker
Managing Director European Regulatory Affairs