



Technical Director

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GRI Response- FASB Exposure draft: Proposed Accounting Standards Update, Improvement to Income Tax Disclosures

The Global Reporting Initiative ('GRI') commends FASB for its continuous efforts in improving its accounting standards, including income tax disclosures. We welcome the proposed Accounting Standards Update, *Income Taxes (Topic 740), Improvements to Income Tax Disclosures*, and we appreciate the opportunity to provide you with our contribution to the public consultation on this update. As providers of the world's most widely used sustainability reporting standards for corporate reporting, and the world's first global standard on comprehensive tax disclosure, GRI commends you for taking forward this initiative.

As we will set out in our below feedback, we believe that enhanced tax transparency serves a crucial role in global sustainable development, as well as improving the ability of investors and stakeholders to adequately identify, assess and manage risks, and also as a means for raising capital, and combating corruption and greenwashing.

We will emphasize the importance however of aligning with a global baseline through adoption of existing reporting standards to make information and data comparable, beneficial for multiple stakeholders, including investors and supervisory bodies, and reduce the compliance burden for reporting organizations. We will first reiterate why GRI and its stakeholders, have included tax as a topic within its wider system of reporting standards.

- Why GRI considers tax as an important topic within its system of global reporting standards

Taxes are important sources of government revenue and are central to the fiscal policy and macroeconomic stability of countries.





They are acknowledged by the United Nations to play a vital role in achieving the Sustainable Development Goals.¹ They are also a key mechanism by which organizations contribute to the economies of the countries in which they operate.

Taxes paid by an organization reflect that profitability depends on many factors external to the organization, including access to workers, markets, public infrastructure and services, natural resources, and a public administration.

Organizations have an obligation to comply with tax legislation, and a responsibility to their stakeholders to meet expectations of good tax practices. If organizations seek to minimize their tax obligation in a jurisdiction, they might deprive the government of revenue. This could lead to reduced investment in public infrastructure and services, increase in government debt, or shifting of the tax obligation onto other tax payers.

Perceptions of tax avoidance by an organization could also undermine tax compliance more broadly, by driving other organizations to engage in aggressive tax planning based on the view that they might otherwise be at a competitive disadvantage. This can lead to increasing costs associated with tax regulation and enforcement.

Public reporting on tax increases transparency and promotes trust and credibility in the tax practices of organizations and in the tax systems. It enables stakeholders to make informed judgments about an organization's tax positions. Tax transparency also informs public debate and supports the development of socially desirable tax policy.

- **Our suggestion to take into consideration as part of updating the tax disclosures in your Accounting Standards**

The key recommendation we have is for the FASB to consider including public country-by-country reporting ('pcbcr'), in line with global reporting standards, as part of the FASB Income tax disclosures. In essence, because pcbcr provides the detailed insight that stakeholders, including shareholders, are looking for to identify and manage potential tax risks and obtain insight in taxes contributed to society.

In this regard, we note the following. In the Basis for Conclusions, #12b, of the consultation document, regarding cbcr it is mentioned that:

"The Board notes that such reporting is beyond the objective of general purpose financial reporting, which is to provide financial information about the reporting entity that is useful to existing and potential investors 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".

Furthermore, it is mentioned that: "The Board also learned that country-by-country reporting often is a discrete manual process that does not align with the timing, level of precision, and extent of reviews and controls inherent in the financial reporting process. In addition, the starting point for preparing country-by-country reporting is not necessarily GAAP amounts (it can be any basis accepted by the taxing authority). Considering the significant costs of aligning an entity's country-by-country reporting processes and its financial reporting processes, the Board does not believe, given the additional jurisdictional information that would be provided by the proposed amendments, that the incremental benefit of incorporating country-by-country information in financial statements would be a cost-beneficial alternative."





Although we understand that the proposed disclosures provide further details on taxes paid, it is in our view valuable to update disclosures to include pcbcr, for amongst others the following reasons:

- i) Also for investors pcbcr is relevant and valuable for their investment decision making and monitoring of investments. From a risk management perspective, but also from a sustainability perspective, in the form of identification and prevention of potential tax avoidance, and taxes contributed to society. This value and need of pcbcr for investors is clearly visible in:
 - a. the various shareholder resolutions through which large groups of investors ask companies like Amazon, Microsoft, Cisco, CoonoPhilips and others, to become transparant on their tax approach, through application of the GRI 207: Tax 2019 reporting Standard. This reporting standard requires pcbcr in disclosure 207-4;
 - b. the various research and guidance the UN PRI provides to its signatories in the field of responsible tax investment. In this research and guidance, the UN PRI emphasizes the importance of pcbcr and the value this data provides to investors for investment decision making.
- ii) Updating disclosures to include pcbcr would mean further alignment with cbcdr regulations and reporting standards around the world, and thereby contributing to a global baseline for country by country tax reporting. A number of examples are:
 - a. pcbcr as included in the GRI 207: Tax 2019 reporting Standard;
 - b. pcbcr as part of the incoming EU Directive;
 - c. pcbcr as part of the existing EU CRD IV Directive;
 - d. cbcdr as part of the existing OECD BEPS project;
 - e. pcbcr as part of the proposed Australian tax integrity legislation;
 - f. pcbcr as part of the existing standard of the Extractives Industries Transparency Initiative;
 - g. pcbcr as part of the civil society draft proposed UN Convention on Tax
- iii) The above argument that “...*cbcr is often a concrete manual process that does not align with the timing, level of precision, and extent of reviews and controls inherent in the financial reporting process...*”, might today be true for some reporting organizations, but we are convinced that this is changing rapidly to automated processes, embedded in broader risk management systems with proper controls. This is driven by various (upcoming) regulations like mentioned above, but also by for example the OECD global minimum tax initiative, that requires to have robust and detailed per country tax data available for multiple analysis and reporting purposes. In addition, with the increased focus on greenwashing in public reporting, also prevention of tax greenwashing requires high quality cbcdr data, supported by robust processes and risk management.
- iv) Regarding the above argument that “*Considering the significant costs of aligning an entity’s country-by-country reporting processes and its financial reporting processes, the Board does not believe, given the additional jurisdictional information that would be provided by the proposed amendments, that the incremental benefit of incorporating country-by-country information in financial statements would be a cost-beneficial alternative...*”, we would like to mention that:
 - a. The mentioned ‘significant cost’ should in our view not be seen as a ‘stand alone’ cost, only made to comply with these disclosure requirements, but as cost made to comply with various existing and incoming (pcbcr) tax regulations and reporting standards around the world;





- b. The benefit is in our view more than incremental as it would align disclosure requirements with global (p)cbcr regulations and reporting standards, helping reporting organizations to comply with these requirements more effectively and efficiently.

- **Adoption of GRI's Tax Standard, GRI 207 by various constituencies**

As a result of GRI's robust due process for Standard setting, GRI 207 was created with multi-stakeholder involvement from various constituencies, addressing the key needs of stakeholders including those typically seen from bench markers, rating agencies, policies, codes of conduct and more. The Standard is universal and applicable to all industries and sizes of companies. The Standard covers all taxes and provides the option for total tax contribution reporting, beyond corporate tax only.

GRI 207, which supports public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance has been individually downloaded 29,469 times as of May 2023, since its release in December 2019. Furthermore, downloads of the full package of the GRI Standards since 2019 (which includes GRI 207) is an additional 253,051 downloads.

- **Adoption by reporting organizations**

Despite the standard only being published as recently as 2019, coming into effect from January 2021, it has already been voluntarily adopted, primarily with large MNEs, such as Vodafone (Head of Tax was on the Technical Expert Committee of GRI 207), Wesfarmers, Rio Tinto, Phillips, BHP, Enel, Credit Suisse, Deutsche Bank, Newmont, Hess Corporation and many more. Research that was undertaken on the usage of GRI 207 in the Nordics, Benelux, Germany, Switzerland and Austria shows that GRI 207 is seen as the benchmark and noted that there are increasing numbers of companies publicly reporting on their tax matters, but reporting varies in style or coverage, which is likely due to the voluntary nature of the reporting.

- **Adoption by policy makers and industry bodies**

- We have already seen demand from Business and Industry Associations, such as the International Council on Mining and Metals, which makes up 1/3 of the global industry, who require reporting with the GRI Standards for membership, and specifically commitment to either GRI 207-4, or an OECD BEPS file by 2025.

- **Adoption by investors**

- During 2021, 2022 and 2023 there have been a growing number of shareholder resolutions demanding public reporting against GRI's tax Standard, GRI 207: Tax 2019. For example, [GN Nord](#), [Cisco](#), [Microsoft](#), [Amazon](#), [ConocoPhillips](#), [Amazon.com Inc](#), [Brookfield Asset Management](#), [Chevron Corporation](#) and [Exxon Mobil Corporation](#). It was also confirmed by the United States Securities and Exchange Commission that tax transparency is [material information for investors](#). The 2022 AGM vote on whether or not Amazon would be required to report publicly with GRI 207 received 21% of independent shareholders votes. In 2014, according to securities filings, a similar resolution from Google's shareholders received only around 1% of the vote. Whilst the shareholders pushing for this did not win a majority, this demonstrated how rapidly the demand from shareholders is growing.

- **Adoption by civil society**





- Notably, the transparency elements of the widely shared civil society [Draft UN Tax Convention](#) which was published in March 2022 were drawn from GRI 207.

- **Concluding comments**

GRI would like to thank you once again for providing the opportunity to provide input to this public consultation. We support this initiative but consider it important to include public country-by-country reporting in this update. This also fits in our ongoing engagement with various regulators and standard setters around the globe, including the ISSB and the EU (EFRAG), to work together as much as possible towards a global reporting foundation with a common language, also for (income) tax reporting.

We reiterate that we intend to continue engaging with FASB and we are of course open to discuss the above with you, in case that is desired.

Sincerely,

Peter Paul van de Wijs

Chief Policy Officer, Global Reporting Initiative

