Country-by-country bank reporting

What is country-by-country reporting and why is it necessary?

Country-by-country reporting ensures that transnational corporations regularly disclose specific business information, such as revenue, on a country-specific basis.

The idea for this reporting was initially promoted in the commodities sector to prevent corruption. This resulted in the international "Extractive Industries Transparency Initiative" (EITI), although this only stipulated the disclosure of all payments made by a company to individual governments and vice-versa. In connection with this, laws for the commodities sector were adopted in the US and the EU. Proposals to include further sectors were rejected.

The call for country-specific transparency for banks gained increasing importance as a means of combating tax avoidance or evasion and because high levels of state aid were distributed during the financial crisis. Against this backdrop, the EU adopted a law in 2013 that forced future banks to disclose their business and tax payments on a country-by-country basis.

Why public reporting?

For a long time, civil society has called on companies to publish country-specific reports. There are good arguments for the public to view specific corporate data. The benefits of country-by-country reporting are significantly increased when not only governments and public authorities are provided access, but also the general public:

- Research institutes can create independent and comparative analyses,
- The public and the media can identify deficits and put pressure on corporations and governments, and
- Investors and business partners have a better overview of risks.

The 2014 EITI Progress Report argued in this sense: "Armed with payment and revenue information, it is up to citizens, community leaders, civil society organisations and the media to hold public officials accountable for the use of their country's extractives revenue to improve services, infrastructure and other public goods." This argument can also be applied to tax information.

Disclosure would even be of use to the public authorities, as they could form a better overall picture of the company in question. Furthermore, this data is already being reported by companies which operate in national markets as part of their balance sheets, and is thus not sensitive – if anything, it would be a competitive advantage to international corporations if they could keep this information confidential.

A survey conducted by PricewaterhouseCoopers in 2014 showed that 59% of all corporate managers feel that multinational corporations should be encouraged to publish country-by-country information such as revenue, profit and taxes.

Current state of legislation in the EU

In June 2013, the EU adopted country-by-country reporting for financial institutions with the reform of the EU Capital Requirements Directive (2013/36/EU, Article 89). The reporting commitment applies to all banks and investment firms. Germany implemented this directive as law in August 2013 as the German Banking Act. A list of the required reporting data can be seen in Table 1.

Table 1: Reporting obligation for German financial institutions

Reporting obligation	Required data
For global systemically important institutions: on 1 July 2014 (data from the first half of 2013) For all banks and investment firms only on 01.01.2015 (data from 2014)	1. Trade name, nature of activities, geographic location of subsidiaries 2. Turnover 3. Number of employees in full-time equivalent units For all banks and investment firms: on 01.01.15 (data from 2014)
For all banks and investment firms: on 01.01.15 (data from 2014)	4. Pre-tax profit or loss 5. Tax on profit or loss 6. Public aid received

Source: German Banking Act: §26A and §64r (15)

The EU Directive also planned to clarify the economic impact of public reporting before the publication of all data. The study in question was published in September 2014. In its report, the Commission concluded from the study: "At this stage, the public country-by-country reporting of information [...] is not expected to have significant negative economic impact [...]. On the contrary, it seems that there could be some limited positive impact [...]."

Compared to the corresponding directive in the commodities sector, the directive for public country-by-country reporting in the banking sector stipulates a more stringent disclosure of tax data. In the commodities sector, more disclosures are required on payments made by a company to governments and vice-versa.

What do the published reports show?

A number of banks have since published country-by-country reports for the 2013 financial year (see Table 2). The reports published to date are only of limited information value due to the low level of data (turnover and employee numbers). For example, when viewing the Deutsche Bank report (see Table 3), it becomes clear that different locations have different levels of profitability in terms of the ratio of turnover to the number of employees. However, it is striking that especially Luxembourg has a very high turnover per employee. This is a certain indication of tax planning. One must await forthcoming reports, however, for more detailed analysis, which will contain additional information on taxes and will therefore be of greater significance.

Table 2: Published country-by-country reports for 2013 (valid as of 29.01.15)
Deutsche Bank: see link
Commerzbank: see link, p.336
KfW: see link
DZ Bank: see link
Unicredit Bank AG: see link
Nord/LB: see link
Landesbank Hessen Thüringen: see link

Moreover, Deutsche Bank grouped a number of countries together under “Other” in its 2013 report. This dubious reporting practice has now been prevented through clarification by the Bundesbank. Deutsche Bank says it will modify this policy in its next report and list all the countries individually.

Country-by-country reports published by other banks until now have been normally relatively straightforward, as fewer activities are pursued in other countries.

Legal situation in some EU countries

In addition to mandatory implementation of the new EU directives, some EU States have passed their own laws on country-by-country reporting; partly for the financial sector, and partly for all companies:

Table 3: Report 2013 Deutsche Bank

Country	Turn- over (mill. €)	Employees, full-time equivalent	Turnover per employee
Australia	414	593	0,7
China	183	504	0,36
Germany	11.435	46.377	0,25
UK	4.846	8.201	0,59
Hong Kong	744	1.248	0,6
India	402	9.724	0,04
Italy	988	3.981	0,25
Japan	714	714	1,00
Luxembourg	1.266	681	1,86
Poland	266	2.159	0,12
Singapore	975	1.988	0,49
Spain	508	2.569	0,2
USA	7.403	9.656	0,77
Other	1.770	9.861	0,18
Total	31.915	98.254	0,32

Source: Deutsche Bank, own calculations

- Before the EU resolution, France had already decided that financial institutions must disclose turnover and employee data on 01.07.2014 and disclose tax data on 01.01.2015.
- In Denmark, authorities have been able to publish country-by-country data on taxes, profit and loss carry-forwards for all companies since 2012.
- In Finland, details including profit, tax debt and unpaid taxes must be made available to the public by all companies on a country-by-country basis.

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Further information:

EU Commission report on the economic consequences of CBCR

German Federal Financial Supervisory Authority (BAFIN) interpretation sheet

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