EUROPEAN COMMISSION

PRESS RELEASE

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European Commission assesses economic consequences of country-by-country reporting requirements set out in Capital Requirements Directive

Today the Commission adopted a report containing a general assessment of the economic consequences of country-by-country reporting (CBCR) by banks and investment firms under Article 89 of Directive 2013/36/EU (CRD IV). The key objective of the Commission's report is to assess whether CBCR leads to significant negative economic effects.

Vice-President Michel Barnier, responsible for Internal Market and Services, said: *"Country-by-country reporting would allow stakeholders to gain a better understanding of the structures of financial groups, their activities and geographical presence and help to understand whether taxes are being paid where the actual business activity takes place. Mandatory country-by-country reporting is an important element of the corporate responsibility of institutions towards stakeholders and society and will help to restore trust in the banking sector. Today's report shows that the reporting obligations under CRD IV are not expected to have a significant negative economic impact, including on competitiveness, investment, credit availability or the stability of the financial system."*

The report, which draws on the results of a public consultation, a round table (and an external study, explains that stakeholders expect CBCR to have some positive impact on the transparency and accountability of, and on public confidence in, the European financial sector. Nevertheless, it is suggested that transparency would benefit from additional guidance to ensure consistent implementation in the Member States. Some stakeholders point to a number of positive effects such as:

- investors will be able to make more informed investment decisions and be more able to hold banks to account;
- CBCR will lead to better risk management by reporting institutions, thus reducing the risk of scandals and increasing stability in the financial sector.

The results of the econometric analysis suggest that improved disclosure quality – which is a key objective of CBCR – would lead to a number of positive outcomes:

- greater disclosure quality can lead to a reduction in the cost of equity capital which may be passed on to businesses and households in the form of lower lending rates and thus benefit credit availability and investment;
- it can also lead to a reduction in the ability of reporting institutions to mask their true performance (earnings management); and
- an increased accounting quality which could result in greater competitiveness and increased financial stability.

Background

Article 89 of Directive 2013/36/EU (CRD IV) introduces a new country-by-country public reporting obligation for banks and investment firms: these institutions will have to report annually, for each country in which they have an establishment, data on:

(a) name(s), activities, geographical location

(b) turnover

(c) staff numbers

(d) profit or loss before tax

(e) tax on profit or loss and

(f) public subsidies received.

It also requires the Commission to conduct a general assessment as regards potential negative economic consequences of the public disclosure of country-by-country data, including the impact on competitiveness, investment and credit availability and the stability of the financial system. In the event that significant negative effects are identified, the Commission shall consider proposing to amend the CBCR obligations, and may decide to defer them.

In preparing its assessment, the Commission gathered input in three ways. First, the Commission also consulted the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) as provided in CRD. Second, it consulted stakeholders directly, including several civil society organisations interested in the matter and the 14 global systemically important institutions authorised in the EU. Third, it awarded, through an open call for tender, a study to an external contractor on the potential positive and negative consequences of CBCR. The study by the external contractor included a stakeholder survey and an econometric analysis.

For more information:

http://ec.europa.eu/internal_market/company/modern/corporate_governance_in_financial_institutions_en.htm

http://ec.europa.eu/internal_market/accounting/country-reporting/index_en.htm

http://ec.europa.eu/internal_market/bank/regcapital/legislation-in-force/index_en.htm

Contacts :

Chantal Hughes (+32 2 296 44 50)

Carmel Dunne (+32 2 299 88 94)

Audrey Augier (+32 2 297 16 07)

For the public: **Europe Direct** by phone **00 800 6 7 8 9 10 11** or by e-mail