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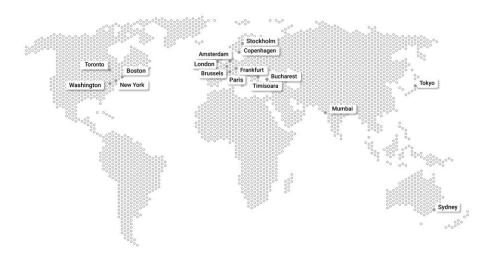
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2023 Overview

In 2023, international corporate taxation as a topic continued to attract the attention of broader society, issuers, investors, regulators, and lawmakers. In this respect, the most notable developments relevant for issuers and their shareholders were:

- International cooperation aimed at addressing the deficiencies of the global tax system continued to advance. However, there are signs of fragmentation between states. Due to a lack of representation at the level of the Organisation for Economic Co-operation and Development, the main actor at the center of international tax cooperation, several countries are seeking different forums to defend their interests. For example, the African Group at the United Nations asked the latter to play an active role in the ongoing global discussion to reshape the international tax system to ensure the outcome is equitable to all countries concerned;
- the draft legislation implementing public country-by-country reporting in Australia and subsequent developments;
- the European Union (EU) sustainability regulatory developments put more emphasis on taxation as a sustainability topic. Also, Romania was the first Member State to implement the EU Public Country-by-Country Reporting framework which makes a key step towards tax transparency within the bloc and beyond;
- the introduction of additional corporate tax transparency requirements by the United States (US) Financial Accounting Standards Board; and
- an increase in the number of shareholder proposals calling for tax transparency among issuers compared to 2022.

Engagement Activity

Against this backdrop and building on the work done in the previous three years in the context of our tax thematic engagement program, in 2023 we continued to engage with twelve large issuers aiming to persuade boards and management to adopt public country-by-country tax disclosures, publish meaningful global tax policies, and implement more robust and sustainable governance frameworks concerning corporate tax affairs.

The pool of engaged companies included five pharmaceutical companies, four technology companies, two banks, and one natural resource company. Our engagement activity during 2023 included eight individual engagement calls with seven of the companies, one engagement in the context of the ESG Roadshow of one technology company and reaching out directly to the board of one of the pharmaceutical companies involved in an ongoing material tax controversy. Despite our repeated efforts, three companies in the pool did not respond to repeated requests for dialogue.

Broadly speaking, based on our evaluation and interactions with these companies, we note that their tax management practices, and tax transparency standards, are suboptimal, with exceptions, e.g., one of the pharmaceutical companies and one of the banks show more robust governance frameworks and transparency disclosures. Also, there is a lack of willingness to adopt higher standards unless required by legislation. Furthermore, certain issuers are members of industry associations that are actively lobbying against further tax transparency requirements in various geographies. In our view, this level of resistance heightens the underlying risks associated with corporate tax practices. However, the

ongoing trend towards tax transparency may help investors mitigate these risks in the medium to long term. In the meantime, our view is that investors should continue to engage using the current available tools and become more familiar with ways of using public tax data to identify underlying risks, despite ongoing challenges.

Case study

Since 2020, we have been engaging with a large US-based multinational. Early during the process, our assessment of the company was that its international corporate tax and governance practices posed significant underlying risks for the business and its shareholders. Despite highlighting our concerns and seeking to keep the dialogue opened, the management did not show a willingness to discuss the issue in more detail. In 2022, the US Internal Revenue Service (IRS) made public the results of an ongoing investigation aimed at the company's international corporate tax practices. Following the investigation's findings, the IRS asked the company to pay back over USD 10 billion in unpaid taxes and penalties for a period covering several fiscal years. Following this, the scope of the investigation was extended to other fiscal years, which could result in additional taxes and penalties for the company.

Following this US IRS investigation, one of the company's shareholders filed a class action lawsuit against the company, the CEO, and the CFO. The shareholder argued that the stock price was artificially inflated by management concealing on purpose the content of the dispute with the IRS.