Cisco to put Tax Transparency Proposal to Shareholder Vote

Cisco Systems, Inc. has confirmed that the tax transparency proposal filed by the Greater Manchester Pension Fund, Etica Funds, and the Missionary Oblates will be put to a vote of shareholders at their annual general meeting. The shareholder proposal calls for the company to publish a Tax Transparency Report aligned with the GRI Tax Standard, including a tax strategy and a country-by-country breakdown of tax and financial information.

This is a watershed moment for investor engagement on tax transparency. Together with the similar proposal filed at Microsoft in June, it is the first time that a tax transparency proposal has not been challenged in the US and comes on the back of Amazon.com, Inc.'s unsuccessful Securities and Exchange Commission (SEC) challenge earlier in the year.

Cisco's opposition statement reveals a company that is out-of-step with leading companies globally. Anglo American, Philips, Randstad, Vodafone, Royal Dutch Shell, NN Group, Ørsted and Newmont are just some of the companies already reporting in line with the GRI Tax Standard and publishing full country-by-country reports of their tax and financial information.

And they are not alone.

A review of the DAX40 found over 70% of companies reviewed provided reporting that was compliant with at least one of the GRI indicators.[1] A Dutch NGO found that 8% of the largest listed Dutch companies report against all or almost all GRI indicators. This research found that 20% of the largest listed Dutch companies published full country-by-country reporting in 2021, up from 13% in 2020.[2] Other research found that 7% of 1380 of the largest listed global companies published CbCR in 2020.[3]

With the GRI Tax Standard only coming into effect on 1 January 2021, these numbers are set to increase in the latest round of company reporting, further isolating laggards like Cisco and Microsoft.

There are also observable trends towards greater tax transparency at a policy level. The Australian government has stated that public country-by-country reporting is a key element of their policy platform. The Australian Treasury is currently running a consultation on the implementation of this policy. While in September 2022, Chair Gensler of the SEC expressed his support for the Financial Accounting Standards (FASB)'s project on public country-by-country reporting.

Dr Katie Hepworth, Responsible Tax Lead, PIRC states:

"Cisco's opposition statement puts forward the same tired arguments against greater tax transparency and shows a company that is increasingly out-of-step with investor expectations globally. Rather than align itself with global leaders and voluntarily disclose tax and financial information for each country of operation, it has instead chosen to continue on a path of secrecy. Cisco's tech peers have been repeatedly singled out by global governments for their aggressive approach to tax avoidance; they should not be held up as exemplars of reasonable tax disclosure.

[1] PWC (2022), Steuerliche Nachhaltigkeit: Studie zum Status quo bei den DAX40, p. 7, https://www.pwc.de/de/pressemitteilungen/2022/steuerliche-nachhaltigkeit-studie-zum-status-quo-bei-den-dax40.html.
[2] VBDO (2021), *Tax Transparency Benchmark 2021*, p. 14.
[3] FTSE Russel (2021), *Global Trends in Corporate Tax Disclosure,* p.10.

"In light of historic reforms to the global taxation system to ensure that companies fairly contribute to the revenue of the countries in which they operate and earn profit, companies must, at a minimum, provide investors with the tools to assess the risks of company tax strategies.

"Cisco only provides an aggregated worldwide figure of their taxes paid, leaving investors unable to properly analyse where the company is paying its taxes, and the risks associated with the company's tax strategy and the governance frameworks that it has in place to monitor and mitigate these risks."

Aldo Bonati, Stewardship and ESG Networks Manager, Etica Funds states:

"Etica took part in the 'PRI collaborative engagement on corporate tax transparency', running from 2017 to 2019, in which Cisco was found to be unresponsive.[4] Since then, we have continued to engage the company on their tax practices with little success. In the meanwhile, a number of companies engaged by Etica started disclosing information in line with the GRI Tax Standard, including Italian companies. We trust that this resolution will help us to gain more complete and meaningful fiscal information from Cisco. To this end, we encourage all long-term investors interested in getting more transparent and standardized data on tax to support the proposal."

Cllr Gerald Cooney, Chair, Greater Manchester Pension Fund:

"We have supported this shareholder resolution since it was filed earlier this year, and appreciate the importance of providing investors with important and relevant financial information. Having seen Amazon try to throw out our proposal, it is pleasing to see Cisco accept the need to put this to a vote. There are serious concerns regarding the company's financial practices, which, with increasing global policies on tax transparency, could pose risks for investors like GMPF.

Local government is so often at the forefront of budgetary restraints and cutbacks, with all manner of negative social consequences. It is of the upmost importance that companies like Cisco pay their fair share, contributing to the societies in which they operate and make their profits in. We look forward to having the opportunity to vote at Cisco's AGM later this year."

For more information, please contact:

- Katie Hepworth (Sydney), Responsible Tax Lead, PIRC (AEST) - katie.hepworth@pirc.co.uk, +61 416 825 280
- Tom Powdrill (London), Head of Stewardship, PIRC (GMT) – tom.powdrill@pirc.co.uk.

Background

Cisco's Global Tax Strategy document provides insufficient information on governance and risk management. The document is not fit-for-purpose, insofar as it does not provide investors with the information to undertake an appraisal of the company's tax risk appetite.

Currently, Cisco fails to provide disaggregated profits or tax payments in non-US markets, challenging investors' ability to evaluate the risks to the company of taxation reforms, or whether Cisco is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates. Cisco's approach to taxation has been repeatedly challenged by tax authorities globally.[5] In 2021, TaxWatch alleged that Cisco avoided £68 million UK taxes in 2019.[6]

[4] https://www.unpri.org/download?ac=10142

[5] https://www.reseller.co.nz/article/663741/cisco-nz-writes-4-6m-cheque-after-tax-investigation/.

[6] https://www.mirror.co.uk/money/city-news/eight-worlds-richest-tech-titans-24238557

In 2018, Cisco repatriated $67 billion in foreign cash holdings as a result of the Tax Cuts and Jobs Act.[7] This was one of the largest repatriation plans among all US companies.[8] The magnitude of the amount repatriated raised questions about Cisco's tax planning strategy and its relationship to the company's business and sustainability approaches, and whether the company had been over-relying on artificial vehicles to reduce tax obligations in countries around the world. Shareholders need greater transparency to evaluate the risks associated with the companies approach to tax, and the implications for their long-term investments.

GRI Tax Standard are the world's most widely adopted global standards for sustainability reporting. Ninety-three percent of the world's largest 250 corporations now report on sustainability. GRI standards are used by over 4,000 organisations in over 90 countries and are often cited in non-financial disclosure legislation, such as the European Union's (EU) Guidelines on non-financial reporting. The Standard was developed by an expert multi-stakeholder technical committee. It was developed in response to investors concerns that current reporting on taxation and other financial matters was insufficient for understanding a company's tax planning practices and assessing the risks associated with these practices. The GRI Tax Standard includes: public country-by-country reporting of business activities, including number of workers, payroll, related-party and third-party revenues, profit, and tax; and disclosures on tax strategy, governance and risk management that meet different stakeholder expectations of reporting. The Tax Standard came into force on the 1 January 2021.

Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 25 years' experience in providing proxy research services to institutional investors on governance and other ESG issues. Our clients encompass major institutional shareholders, faith-based investors, trade unions and other responsible investors.

PIRC is supporting the filing of this proposal, as part of a new initiative that launched in December in collaboration with the Centre for International Corporate Tax Accountability and Research (CICTAR). The initiative will facilitate active engagement with companies in sectors with a history of aggressive tax avoidance, as well as sectors with significant exposure to government contracts and dependent on healthy tax revenue for growth. The first action of the initiative was the filing of a shareholder proposal at Amazon.com, Inc. which was supported by 21% of independent shareholders.

The Greater Manchester Pension Fund (GMPF) co-filed the Amazon and Microsoft shareholder proposals for tax transparency. The local authority pension fund was approved as a signatory to the Financial Reporting Council's UK Stewardship Code 2020, following a rigorous assessment of stewardship activities and the creation of long-term beneficiaries leading to sustainable benefits for the economy, the environment and society. The 2021 RAAI Leaders List ranks the GMPF as 35th of the most responsible investors out of the world's top 634 asset allocators.

Etica Funds is an Italian asset management company (part of the Banca Etica Group) which for over 20 years has offered only sustainable and responsible mutual funds. Etica's mission is to "represent the values of ethical finance in financial markets and promote socially responsible investment and corporate social responsibility" (art. 4 company bylaws). Etica's funds carefully select their investee companies, for example by excluding those involved in controversial activities or those not respecting internationally accepted norms and conventions on human and labour rights.

The Missionary Oblates of Mary Immaculate-United States Province was established by the Oblates of Mary Immaculate to manage the financial resources of more than 100 Roman Catholic organizations worldwide. The Trust is a professionally managed, diversified investment fund that seeks to promote a more equitable and sustainable world through socially responsible, faith consistent, and impact investing. The Missionary Oblates were the lead filers on the Amazon proposal and co-filed the Microsoft proposal

[7] https://www.nytimes.com/2018/02/14/business/cisco-repatriation-tax-law.html
[8] https://democrats.org/news/trump-tax-still-not-trickling-down-to-workers/