



**Submission by CIDSE to the Consultation on IASB's discussion paper on extractive activities
(DP/2010/1)**

Brussels, 29 July 2010

CIDSE, is an alliance of 16 Catholic development organisations from Europe and North America. In our effort to promote the reform of international finance to serve all, rich and poor alike, we work to tackle the outflow of resources from developing countries.

CIDSE appreciates the opportunity to feed into the open consultation on the IASB Discussion Paper on Extractive Industries (DP/2010/1). We welcome the IASB initiative of developing a new International Financial Reporting Standard for extractive activities which would cover all phases of extractive activities including exploration and evaluation, development and production.

We do remain concerned, however, that the discussion paper is not conducive to the creation of a comprehensive country-by-country reporting standard.

CIDSE therefore submits the following comments:

1. Companies should report their financial accounts in every country in which they operate

The current proposal allowing firms to decide whether they report their financial information in a country depending on the importance of the activities of a particular MNC in that country, - “materiality clause” - will reduce comparability of data, a key principle of international standards. Indeed, it would keep accounting information on many countries still aggregated, therefore contributing to maintaining the sector's opacity instead of incentivising transparency. The setting of thresholds in terms of what is material for the company, based on the size of their national reserves relative to their international reserves is of particular concern. The standard should take into account that reputational risks are not necessarily related with the volume of assets or production.

Therefore, the reporting standard should require all companies to report systematically for each of the countries where they operate.

2. The financial reporting standard for the extractive industries should not allow exemptions to the reporting requisite

The current proposal allows firms to opt out of reporting country-specific data where they feel this would “prejudice the position of the entity” (paragraph 6.37). We oppose this exemption because it would remove the protection of a standard reporting requirement, leading to a situation in which the most transparent firms would have to bear the responsibility of justifying to governments that are non-transparent the reasons why they decided not to make use of this exemption. Thus, companies might face pressure not to report, and legal and operational antagonism if they did. Furthermore, it would deprive investors from getting comparable and consistent data on firms' performance in the different countries in which they operate.

Consequently, there should not be reporting exemptions of any kind nor confidentiality clauses. A uniformly applied IFRS should override restrictions of confidentiality clauses.

3. The financial reporting standard for the extractive industries should oblige companies to report the different payments they make to each government in every country in which they operate

When different kind of payments to host governments cannot be traced, they can be subject to diversion or low tax payments that can engender political pressure to expropriate assets. The disclosure of data on the different payments that companies make to governments is an essential tool to provide a level playing field for all extractive firms, prevent tax evasion and fight corruption by holding both companies and governments to account. Thus, specific disclosure of payments to governments and the disaggregation of this information into the different categories already standardised in the Extractive Industries Transparency Initiative (EITI) should be included as a requisite during the IFRS 6 review.

The new IFRS6 should therefore generalise a country specific reporting of payments made to host governments.

4. A minimum set of information is required to get an accurate picture of the companies' situation

The current proposal does not clearly determine the basic information that should be reported by companies. By default, it adopts an approach “à la carte” that hampers information coherence and comparability. The Discussion Paper presents a set of options but rejects country-specific reporting requirements related to production revenues, subsidiaries and properties. It also fails to give a clear recommendation on payments made to governments (see our point 3).

We consider that to fully understand the profile of operations and to enhance transparency in the extractive sector, the financial reporting standard should establish a minimum set of country-specific information that every company should report on, namely:

- the names and locations of each subsidiary and property in each country. The proposal claims that these are available but does not offer proof of it ;
- details of tax charges and other payments to governments should be broken down by type of payment;
- reserves;
- production volumes, and costs;
- production revenues and
- number of employees.

Finally, we reiterate that we believe that the IFRS is the vehicle to introduce country-specific disclosure requirements for extractive industries to enable investors to make the most accurate evaluations they can of the risks and degree of exposure that their investments entail. Additionally, it would provide other stakeholders including parliamentarians and civil society the kind of information they need to hold accountable their governments and companies operating in their countries while giving tax administrations the information they need to combat tax evasion.

We call attention to the recent passing of a new Bill in the US that will require all companies listed on the SEC to disclose their payments to governments on a country-by-country and project-by-project basis. This is an important step forward. However, to further globalise such disclosure, we urge the IASB to adopt country-specific reporting requirements into a new IFRS for extractives along the lines of the recommendations we have submitted above.

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