

## **GUIDANCE FOR ENGAGEMENT**

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### **Getting Institutional Investors to support our position**

#### **Why do we need to get the support of investors?**

The IASB currently uses the needs of capital providers, especially investors, as its key criteria in judging what should and should not be included in new standards. If investors state clearly that they want country-by-country disclosure of all the types of information we seek, this will be very, very difficult for the IASB to ignore.

(We do not agree with the prioritization of investors' information needs over that of others that would use the financial reports, e.g. civil society. But this is the approach the IASB is currently taking. So if we can show that investors also endorse our asks, the IASB will have no excuse to reject what we are seeking.)

### **What do we need investors to do? When do we need them to do it?**

We need investors to directly express their support for our 'asks' to the IASB. The clearest route is for them to send written submissions to the IASB in response to the Discussion Draft. This is part of the IASB formal consultation process and investor inputs are particularly welcomed by them. All responses are published on the IASB's website, so this would also allow us to quote and refer to such support. We've attached a template letter at the end to help you make the first contact to state the case.

The deadline for written submissions on the **Discussion Paper is July 30<sup>st</sup>, 2010.**

To submit their comments they should go to <http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Comment+Letters/Comment+Letters.htm> and follow the instructions.

In addition, there is a range of supportive activities they can so:

- speak in support of country-by-country reporting requirements in meetings and conferences
- write articles and issues press statements, especially to the business and accounting press
- engage with extractive companies in which they own shares to encourage them to speak in support.

After the deadline for response to the Discussion Draft, there will be further stages where inputs from investors will be needed, such as when the Exposure Draft is released, when the final standard is up for discussion. We don't know exactly when that will be, but we will follow up at that time.

### **Why would an investor engage on the development of a new accounting standard (International Financial Reporting Standard, IFRS)?**

Most but not all investors will already be aware of the IASB's work. It is important to draw their attention to the issue and explain what the IASB is doing on extractives and why this is important for them.

The IASB sets the accounting standards that companies must use if they are listed or raising capital in the more than 100 countries that have agreed to follow the IASB's rules. These accounting standards (International Financial Reporting Standards or IFRSs) determine how a company must present its annual financial report and this is one of the

most important sources of information that investors use to judge the value of companies for investment, and monitor the progress of companies in which they own shares.

The IFRSs are the closest there is at the moment to a set of global standards for corporate reporting. The countries that require or permit their use include the 27 members of the European Union, South Africa, Canada, much of South East Africa, Brazil and much of Latin America. Very importantly ‘convergence programs’ are underway with US, China, India and a number of other emerging economies that would mean IFRSs will also apply to companies in these countries.<sup>1</sup>

Therefore, investors have a strong interest in ensuring that the reporting standards will lead companies to give them the information that they need.

### **Why would an investor support our ‘asks’ for country-by-country reporting standards in the extractives sector?**

#### **What arguments can you use to convince them to act in support?**

Requirements for country-by-country reporting by extractive countries will help investors address some of the particular risk and value assessment and exposure they face with the extractives sector as well as support national contexts that will foster local stability, long term returns and local licenses to operate.

#### ***1. Addressing the unusually high operating exploration and operating risks in the extractives sector – why country-by-country reporting should be required to better judge risk and value***

The extractives sector is well recognized as an area of unusually high uncertainty and risk. Investors need country-specific information because this exposure varies greatly from country-to-country, as political, fiscal, environmental and social contexts change.

Specifically, they will benefit from country-specific information on payments to governments, production volumes, revenues and costs because that will allow them to judge the scale of exposure in different contexts, including those that may be politically or economically unstable areas. Such areas are particularly prone to nationalization and expropriation of assets, or changes in the levels of taxes and duties charged.

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<sup>1</sup> For a map of coverage, see <http://www.iasb.org/Use+around+the+world/Use+around+the+world.htm>

Such country-specific information will also allow them to check the accuracy of their revenue modelling in different fiscal regimes and predict changes in returns should these change. They will also benefit from country-specific information on the scale and value of reserves, since again national imperatives and fiscal regimes may affect their availability and value.

It is, therefore, in the interest of investors to express their view that country-by-country reporting is necessary for good decision-making by capital providers and should therefore be a key requirement of the new IFRS.

***2. Addressing the reputation risks of the extractives sector – why materiality thresholds for reporting should not be inappropriate and left to the company’s discretion***

Again, the extractives sector has an unusually high level of reputational risks and country-specific information would help expose and manage them. Since many such reputational risks relate national characteristics (e.g. the relative autocracy of its leaders, levels of corruption, human rights record, environmental history etc.) investors would benefit from country-specific information to make judgments.

Reputational risks are not related to size of operations. Neither is it obviously in a company’s interests to proactively choose to expose areas of reputational risk unless compelled to do so. For example, a company making corrupt payments to the leaders of a country with a very bad human rights record, even though these would be small in relation to a companies profits, would be exposed to very serious reputational - and in many jurisdictions, legal and therefore financial - consequences.

The Discussion Paper accepts this when it states that, “...an entity’s exposure to reputational risks and the associated potential economic loss is not correlated to the scale of the entity’s investment in a particular country,” (paragraph 6.24).

Yet it also states, “The effect that country-specific investment risks may have on an entity depends on the materiality (in quantitative terms) of its investments in that country relative to its overall financial position and performance. This is because the potential economic loss (or gain) to the entity arising from country-specific investment risks would be expected to be correlated to the relative value of the entity’s investments in that country,” (paragraph 6.15).

It uses this contradictory point to make the recommendation, “It will not always be clear whether a country is material to the entity in this way, but ultimately this decision rests with the entity”.

To facilitate comparability and resist internal inappropriate pressures within companies that might hinder full disclosure to investors, it would be advantageous to investors to resist the proposal in the current Disclosure Paper to leave decisions on materiality to the discretion of companies. Rather, the standard should state that companies will report for each country in which they operate. If materiality thresholds are to be set, given country-specific reputational risks, would be in their interests to have materiality thresholds set more in terms of materiality to the country, than to the company.

Calverts, an investor, has published a paper supporting this position in relation to country-specific reporting of payments to governments<sup>2</sup>. It may be useful to give a copy of this to your target investor, explaining that though this was written to support the US Energy Security Through Transparency Bill, it is the same principle of country-specific reporting requirements that are being sought in the IFRS for extractives.

### ***3. Ensuring comparative information, over-riding governments misuse of confidentiality clauses, protecting ethical companies – why the standard should not allow any reporting exemptions***

In addition to leaving companies to determine materiality, the Discussion Paper also proposes allowing companies to opt out of reporting country-specific data where they feel host governments might oppose this. This is counter to the interests of investors in two main ways.

Firstly, standard confidentiality clauses usually state that they are overridden by the reporting requirements of laws and requirements like those for listing and accounting. Thus, a government could not contest requirements included in IFRSs. This would effectively protect ethical companies who wanted to be transparent. However, with the exemption, companies would have to explain to untransparent host governments why they were not using the exemption. Thus, companies might face pressure not to report, legal and operational antagonism if they did.

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<sup>2</sup> <http://www.calvert.com/NRC/literature/documents/10003.pdf>

Secondly, one of the main rationales for accounting standards is to give investors consistent data from each company to be able to compare prospects and performance. Exemptions and non-reporting clearly remove this comparability.

Therefore, it is the interests of investors to resist the inclusion of reporting exemptions in the new standard.

#### ***4. Getting the full package of information needed to assess risk and value – why the IASB should avoid including country-specific reporting requirements for some data but excluding others***

To fully understand the profile of operations in different political and fiscal regimes, investors need a coherent package of country-specific information. This would require reporting for each country of:

- a. Reserves
- b. Production volumes
- c. Costs
- d. Production revenues
- e. Benefit streams (payments) to governments
- f. Subsidiaries and properties

The current Discussion Paper is recommending a certain degree of country-specific reporting of the first three but not of the latter three. Investors need all of these to allow comparisons between the different kinds of information to judge whether they are complete and appropriate in each country of operation. For example, if production volumes are huge, costs (even carried over) are low, profits are high, but payments to government remain low, this would flag a likely area of risk in that national stakeholders will likely perceive low returns and may move to renegotiate contracts.

Thus, it is in the interest of investors to resist the proposed ‘pick and mix’ approach of the Discussion Paper and endorse country-by-country reporting requirements for each kind of information. In particular, there is a need to express support for the inclusion of requirements related to productions revenues, payments to governments, subsidiaries and properties.

## ***5. Ensuring payments to each government are disclosed – why investors should endorse requirements for country-specific reporting of payments to governments***

Companies within the jurisdiction of anti-corruption legislation like the US Foreign Corrupt Practices Act and the UK's new Bribery Act need information on payments to individual governments to comply. However, all companies should already have full information about payments to individual governments as part of their tax accounting. Thus the costs of producing such information should be much lower than the costs of not producing it. Despite this, the Discussion Paper recommends more research on the cost-benefit balance of requiring country-specific reporting of payments to governments. There is a risk that investors will not get access to this information, and a key lever to encourage companies to systematically monitor this high risk area will be lost.

Different kinds of payments to host governments are prone to different kinds of risk. For example, signature bonuses are prone to misappropriation to personal bank accounts if they cannot be traced, payments in kind can be subject to diversion, very low tax payments can engender political pressure to expropriate assets etc.

For these reasons, investors seeking a full understanding of risk will support country-specific disclosure of payments to governments and the disaggregation of this information into the different kinds of payments to governments that PWYP is seeking – the categories for disaggregation have already been standardized in the EITI.

## ***6. Fostering local stability and local licenses to operate for geographically-tied investments – why country-specific reporting is good for stewardship and long-term returns on investment***

Unlike other sectors, the extractive sector is tied to the location of reserves. There are also very long lead times between investment in exploration and development and the delivery of profit. Extraction can also readily create environmental, economic and social impacts resulting in resistance from local populations, violence and corruption that can reduce profits. All these factors mean that those investing in the extractive sector have an unusually high interest in doing all they can to foster local environments of trust and stability, as part of their stewardship in maintaining long term value creation.

A key part of this involves promoting transparency and good governance that supports citizens in producing countries to hold their governments to account for extractives resources. Such transparency can also build trust in companies that publish the financial

contributions they make, which also serves to shift attention for service delivery from the companies back to the governments, reducing the costs of corporate philanthropy.

Properly managed resource-rich economies feature higher and broader-based economic growth. This would increase the stability of developing countries and create new markets for investors and companies, including in the non-natural resource sectors.

Such trust-building and accountability needs information that is specific to the country. Therefore, it is in the interests of investors interested in promoting long-term returns, to endorse the need for country-by-company financial reporting for each country of operation.

Company financial reports could play a crucial role in giving citizens and civil society the information they need to hold governments to account for the use of national resources. Investors that recognize the importance of this accountability to local stability and growth, might also advise the IASB that they should include the needs of these groups as key criteria in judging what disclosure to require.

## **Identifying investors to target**

Many national organizations working on these issues will already have long-running relationships with some investors. Otherwise, it may be useful to first approach **ethical investors** in your country. Also you might focus on investors that have already expressed support for global mechanisms to promote payments transparency, comprehensiveness, and comparability in the extractives sector – to support you, we have we have added below a list of the **institutional investors that have endorsed the Extractive Industry Transparency Initiative**.

NB. It has not been possible to identify all the contact information but contacts can be facilitated by Chris Eads at the EITI Secretariat ([ceads@eitransparency.org](mailto:ceads@eitransparency.org)).

Another way of identifying investors that are potentially supportive is to look at the signatories to the UN Principles for Responsible Investment (UNPRI): <http://www.unpri.org/signatories/>. The UNPRI list of signatories is divided into asset owners, investment managers and professional service partners. The first two are the most interesting for our purposes. On the website it is possible to identify signatories by individual country.

Please note: we would be very grateful if you could keep the international coordination group updated on the contacts you establish so we can add information to our database.

# INVESTOR MAPPING

This mapping is intended to help you identify possible investors to approach.

However, it is an evolving document – if you have new information and updates, please do send these to Joseph Williams ([jwilliams@publishwhatyoupay.org](mailto:jwilliams@publishwhatyoupay.org)) and Soren Kirk Jensen ([soren@independentpolicyanalysis.net](mailto:soren@independentpolicyanalysis.net)) – Many thanks!

**Strategic supporters – those who we believe have expressed support for some degree of country-by-country reporting, though this may not be for everything that we are asking**

United Kingdom				
Investor	Contact person	Email	Telephone	Notes
F&C Asset Management	Robert Jenkins, Chairman, F&C Investments, Board Chairman, Investment Management Association			
	Karina Litvack, Head of Governance & Sustainable Investment	<a href="mailto:Karina.Litvack@fandc.com">Karina.Litvack@fandc.com</a>	+44 20 7011 4219 +44 (0)7939 241 044	Former EITI board member investor rep
Railpen Investments (RPMI)	Frank Curtiss, Head of Corporate Governance	<a href="mailto:frank.curtiss@rpmi.co.uk">frank.curtiss@rpmi.co.uk</a>	+44 20 7256 8003 +44 20 7256 8030	
United States				
Boston Common Asset Management	Dawn Wolfe Lauren Compere	<a href="mailto:dwolfe@bostoncommonasset.com">dwolfe@bostoncommonasset.com</a> <a href="mailto:lcompere@bostoncommonasset.com">lcompere@bostoncommonasset.com</a>	+1 (617) 720-5557	
Calvert Investments	Bennett Freeman Paul Bugala	<a href="mailto:Bennett.Freeman@Calvert.com">Bennett.Freeman@Calvert.com</a> <a href="mailto:Paul.Bugala@Calvert.com">Paul.Bugala@Calvert.com</a>	+1 (301) 961-4755	

Norway				
KLP	Jeanett Bergan	<a href="mailto:Jeanett.Bergan@klp.no">Jeanett.Bergan@klp.no</a>	+ 47 2203 3500	
Storebrand	Tulia Machado-Helland, SRI Analyst	<a href="mailto:tulia.machado.helland@storebrand.com">tulia.machado.helland@storebrand.com</a>	+47 4761 7878	

**EITI signatories: - those who have signed on to support greater transparency in the extractives sector, but may not yet have decided or expressed a view on mandatory standards for companies**

United Kingdom (28)				
Aberdeen Asset Managers Ltd (UK)	Andrew Preston & Clare Payn	<a href="mailto:andrew.preston@aberdeen-asset.com">andrew.preston@aberdeen-asset.com</a>		
AEGON Asset Management (UK)	Ryan Smith	<a href="mailto:ryan.smith@aegon.co.uk">ryan.smith@aegon.co.uk</a>		
Association of British Insurers	Lucy Butler	<a href="mailto:lucy.butler@abi.org.uk">lucy.butler@abi.org.uk</a>		
Morley Fund Management	Toby Belsom	<a href="mailto:toby.belsom@morleyfm.com">toby.belsom@morleyfm.com</a>		
Baillie Gifford & Co	Kenny Bell	<a href="mailto:kenneth.bell@bailliegifford.com">kenneth.bell@bailliegifford.com</a>		
CCLA Investment Management Ltd	Helen Wildsmith Victoria Barron	<a href="mailto:helen.wildsmith@ccla.co.uk">helen.wildsmith@ccla.co.uk</a> <a href="mailto:victoria.barron@ccla.co.uk">victoria.barron@ccla.co.uk</a>		
Central Finance Board of the Methodist Church	Bill Seddon	<a href="mailto:bill.seddon@cfbmethodistchurch.org.uk">bill.seddon@cfbmethodistchurch.org.uk</a>		
Co-operative Insurance Society	Jo Allen	<a href="mailto:jo.allen@cis.co.uk">jo.allen@cis.co.uk</a>		
Ecclesiastical Investment Management	Neville White	<a href="mailto:neville.white@ecclesiastical.com">neville.white@ecclesiastical.com</a>		
Fidelity Investments				

Gartmore Investment Management plc	Tony Little	<a href="mailto:tony.little@gartmore.com">tony.little@gartmore.com</a>		
Goldman Sachs Asset Management International	Alex Marshall	<a href="mailto:alexander.marshall@gs.com">alexander.marshall@gs.com</a>		
Governance for Owners	Anne Kirkeby Michelle Edkins	<a href="mailto:a.kirkeby@g4owners.com">a.kirkeby@g4owners.com</a>		
HSBC Group Investment	Nick Robins Francis Sullivan	<a href="mailto:nick.robins@hsbc.com">nick.robins@hsbc.com</a> <a href="mailto:francissullivan@hsbc.com">francissullivan@hsbc.com</a>		
Henderson Global Investors	My-Linh Ngo, Antony Marsden	<a href="mailto:My-Linh.Ngo@henderson.com">My-Linh.Ngo@henderson.com</a> <a href="mailto:antony.marsden@henderson.com">antony.marsden@henderson.com</a>	+44 (0)20 7818 2164	
Hermes Investment Management Limited	Jennifer Walmsley	<a href="mailto:j.walmsley@hermes.co.uk">j.walmsley@hermes.co.uk</a>		
Jupiter Asset Management	Emma Howard Boyd	<a href="mailto:ehowardboyd@jupiter-group.co.uk">ehowardboyd@jupiter-group.co.uk</a>		
Legal & General Investment Management	Peter Chambers	<a href="mailto:peter.chambers@lgim.co.uk">peter.chambers@lgim.co.uk</a>		
Local Authority Pension Fund Forum Bridget Boule	Tessa Younger	<a href="mailto:tessay@pirc.co.uk">tessay@pirc.co.uk</a> <a href="mailto:bridgetb@pirc.co.uk">bridgetb@pirc.co.uk</a>		
Merrill Lynch Investment Managers	Alex Poppelwell	<a href="mailto:alex.popplewell@blackrock.com">alex.popplewell@blackrock.com</a>		
Newton Asset Management Ltd	Amanda Young	<a href="mailto:Amanda_Young@newton.co.uk">Amanda_Young@newton.co.uk</a>		
Nottinghamshire County Council	John Pearson			
RCM	Barbara Evans	<a href="mailto:barbara.evans@uk.rcm.com">barbara.evans@uk.rcm.com</a>		

Rio Tinto Pension Investments Ltd	Stephen Burley			
Schroders Investment Management	Sue Livingston	<a href="mailto:sue.livingston@schroders.com">sue.livingston@schroders.com</a>		
Scottish Widows Investment Partnership (SWIP)	Anne C Fraser	<a href="mailto:anne.fraser@swip.com">anne.fraser@swip.com</a>		
Threadneedle Asset Management Ltd.	Therese Niklasson	<a href="mailto:therese.niklasson@threadneedle.co.uk">therese.niklasson@threadneedle.co.uk</a>		
Trillium Asset Management				
Walden Asset Management	Tim Smith	<a href="mailto:tsmith@bostontrust.com">tsmith@bostontrust.com</a>		
UBS Global Asset Management	Ian Pitfield	<a href="mailto:ian.pitfield@ubs.com">ian.pitfield@ubs.com</a>		
Universities Superannuation Scheme	Daniel Summerfield	<a href="mailto:dsummerfield@uss.co.uk">dsummerfield@uss.co.uk</a>		
Trades Union Congress	Janet Williamson	<a href="mailto:jwilliamson@tuc.org.uk">jwilliamson@tuc.org.uk</a>		
<b>France (6)</b>				
Allianz Global Investors	David Diamond			
Amundi asset management	Micheline Thaumiaux	<a href="mailto:micheline.bourny-thaumiaux@caam.com">micheline.bourny-thaumiaux@caam.com</a>		
Dexia Asset Management	(Belgium/France)			
Fonds de Réserve pour les Retraites	Nada Villermain-Lécolier	<a href="mailto:Nada.Villermain-Lecolier@fondsdereserve.fr">Nada.Villermain-Lecolier@fondsdereserve.fr</a>		
I.D.E.A.M. – Integral	Christian de Vaultx	<a href="mailto:Christian.devaultx@ideam.fr">Christian.devaultx@ideam.fr</a>		

Development Asset Management				
<b>United States (13)</b>				
CalPERS	Dennis Johnson			
CalSTRS	Janice Hester-Amey	<a href="mailto:JHAmey@CalSTRS.com">JHAmey@CalSTRS.com</a>		
Christian Brothers Investment Services	Julie Tanner	<a href="mailto:jtanner@cbisonline.com">jtanner@cbisonline.com</a>		
Domini Social Investments	Adam Kanzer	<a href="mailto:akanzer@domini.com">akanzer@domini.com</a>		
Illinois State Board of Investment	William Attwood	<a href="mailto:watwood@mail.state.il.us">watwood@mail.state.il.us</a>		
JPMorgan Asset Management	Amy Davidsen			
New York State Common Retirement Fund	George Wong	<a href="mailto:gwong@osc.state.ny.us">gwong@osc.state.ny.us</a>		
Ohio Public Employees Retirement System	Cynthia Richson			
Services Employees International Union (SEIU)	Steve Abrecht	<a href="mailto:abrechts@seiu.org">abrechts@seiu.org</a>		
State of Connecticut	Denise L. Nappier & Donald A. Kirshbaum	<a href="mailto:donald.kirshbaum@po.state.ct.us">donald.kirshbaum@po.state.ct.us</a>		
State Street Global Advisors				
The Dreyfus Premier Third Century Fund Inc and the Dreyfus Socially Responsible Growth Fund Inc	John O'Toole			

TIAA-CREF	Hye Won Ehoi	<a href="mailto:hchoi@ttaa-cref.org">hchoi@ttaa-cref.org</a>		
<b>Canada (9)</b>				
Bâtirente (Canada)	Francois Meloche	<a href="mailto:francois.meloche@batirente.qc.ca">francois.meloche@batirente.qc.ca</a>		
CAAT Pension Plan	Julie C. Cays			
Caisse de Dépôt et Placement du Québec	Marie-Claude Provost	<a href="mailto:mcprovost@lacaisse.com">mcprovost@lacaisse.com</a>		
Canadian Labour Congress				
CPP Investment Board	Brigid Barnett	<a href="mailto:bbarnett@cppib.ca">bbarnett@cppib.ca</a>		
Ethical Funds	Robert Walker	<a href="mailto:rwalker@credential.com">rwalker@credential.com</a>		
Hospital of Ontario Pension Plan (HOOPP)	Julie Cays	<a href="mailto:JCays@caatpension.on.ca">JCays@caatpension.on.ca</a>		
Ontario Teachers' Pensions Plan (OTPP)	Catherine Jackson Paul Schneider	<a href="mailto:paul_schneider@otpp.com">paul_schneider@otpp.com</a>		
York University Pensions Fund	Trudy Pound-Curtis Leona Fields	<a href="mailto:trudypc@yorku.ca">trudypc@yorku.ca</a>		
<b>Sweden (3)</b>				
Banco Fonder	Helena Hagberg	<a href="mailto:Helena.hagberg@banco.se">Helena.hagberg@banco.se</a>		
Folksam Insurance Group				
Första AP-fonden (AP1)	Nadine Viel Lamare			

<b>Norway (3)</b>				
DnB Nor Asset Management/Carlson Investment Management (Norway/Sweden)	Allan Emanuelsson	<a href="mailto:Allan.Emanuelsson@dnbnor.com">Allan.Emanuelsson@dnbnor.com</a>		
Inspire Invest				
Norges Bank Investment Management (NBIM)	Ola Peter Krohn Gjesvang	<a href="mailto:okg@nbim.no">okg@nbim.no</a>		
<b>The Netherlands (8)</b>				
ABP Investments	Stephen Lister	<a href="mailto:stephen.lister@abpinvestments.nl">stephen.lister@abpinvestments.nl</a>		
APG Asset Management	Rob Lake,	<a href="mailto:rob.lake@apginvestments.nl">rob.lake@apginvestments.nl</a>	+ 31(0)20 405 5914 +31(0)6 51 33 96 73	
ING Investment Management	Hendrik-Jan Boer	<a href="mailto:Hendrik-Jan.Boer@ingim.com">Hendrik-Jan.Boer@ingim.com</a>		
Mn Services	Kris Douma	<a href="mailto:kris.douma@mn-services.nl">kris.douma@mn-services.nl</a>		
Robecco	Wilco Van Heteren	<a href="mailto:w.van.heteren@robeco.nl">w.van.heteren@robeco.nl</a>		
SNS	Theo Dijkstra	<a href="mailto:theo.dijkstra@sns.nl">theo.dijkstra@sns.nl</a>		
PGGM	Karina Litvack, F&C	<a href="mailto:Karina.Litvack@fandc.com">Karina.Litvack@fandc.com</a>		
<b>Switzerland (4)</b>				
Ethos Investment Foundation	Simon Perrin Jean Laville	<a href="mailto:sperrin@ethosfund.ch">sperrin@ethosfund.ch</a> <a href="mailto:jlaville@ethosfund.ch">jlaville@ethosfund.ch</a>		
Guilé Foundation	Gilles Carbonnier	<a href="mailto:gilles.carbonnier@guile.net">gilles.carbonnier@guile.net</a>		
Sarasin	Eckhardt Plinke	<a href="mailto:eckhard.plinke@sarasin.ch">eckhard.plinke@sarasin.ch</a>		

Swiss Re Asset Management	Paolo Sismondi	<a href="mailto:paolo_sismondi@swissre.com">paolo_sismondi@swissre.com</a>		
<b>South Africa (1)</b>				
Element Investment Managers	David Couldridge	<a href="mailto:David@elementim.co.za">David@elementim.co.za</a>		
<b>Australia (1)</b>				
AMP Capital Investors	Ian Woods	<a href="mailto:ian.Woods@ampcapital.com">ian.Woods@ampcapital.com</a>	+612 92571343	

**3-page summary / Template letter – for NGOs to send to investors on the Discussion Paper for a new reporting standard for extractives**

[Name & Address]

Dear [name]

Re: A New International Financial Reporting Standard for the Extractive Sector in development – the need for country-by-country reporting requirements

We are writing you to direct your attention to the International Accounting Standards Board (IASB) recent publication of a Discussion Paper on a new International Financial Reporting Standard (IFRS) for the Extractive Industries. The full text of the Discussion Paper can be found at <http://www.iasb.org/NR/rdonlyres/735F0CFC-2F50-43D3-B5A1-0D62EB5DDB99/0/DPExtractiveActivitiesApr10.pdf>

This is the first step in the IASB's standard-setting process. It is requesting comments in response. The deadline for submissions in **July 30<sup>th</sup>, 2010**.

Once finalized, the new standard will take effect in approximately 110 countries worldwide, and if the IASB succeeds in its convergence plans with the US, India, China and others, this reach will be even greater. The new standard could be pivotal in improving the availability of information in this high risk sector.

The Discussion Paper considers requiring oil, gas and mining companies to provide **country-specific information**. We would like to suggest that promoting such geographic segmenting is a shared agenda, in the interests of both capital providers and organizations promoting good governance in resource-rich countries.

The IASB has taken steps in the right direction by recommending using country-by-country as the unit of account for reporting reserves and production volumes. Yet the IASB does not go far enough in ensuring transparency in the oil, gas and mining industries by extending this principle to reporting revenues and payments to government.

In our discussion with other investors, they have stated that the disclosure of country-by-country information is critical to improve investors' risk assessment and management frameworks. Operating and reputational risks vary on a national basis according to specific political, fiscal and regulatory regimes. Disclosure by companies about where they are operating and the scale of their exposure in different countries is critical to predicting value and mitigating risks. Yet such country-specific reporting is not a current requirement and many companies present financial reports at an inadequate level of granularity.

Improving the availability of country-specific information is also of interest to citizens in places where the extraction is taking place. They want to know how much their governments are receiving in order to hold them accountable for these revenues and resources.

We would like to invite [INSERT NAME OF INVESTOR] to review the IASB's Discussion Paper and comment on it before July 30<sup>th</sup>. We would like to bring your attention to some of

aspects of the discussion paper which we believe will be of particular interest and concern to your organization:

**1. Determining whether country-specific information is valuable to investors for assessment of risk and predicting future value**

The Discussion Paper expresses the view it has heard from investors that country-by-country reporting would add value in improving decision-making by capital providers. It is looking for commentary from other investors on whether the varying national contexts of political, fiscal and regulatory risk do indeed merit such a recommendation for increased geographic segmenting. We would like to suggest that they do.

**2. Determining whether thresholds for materiality of country-specific reporting should be left to the discretion of individual companies**

The Discussion Paper acknowledges that the extractives sector has an unusually high level of reputational risks, that many of these are specific to country contexts and that the scale of reputational risk is unrelated to the scale of operations. However, it concludes that, “It will not always be clear whether a country is material to the entity in this way, but ultimately this decision rests with the entity,” (paragraph 6.24)

To facilitate comparability and resist internal inappropriate pressures within companies that might hinder full disclosure to investors, we would propose that it might be appropriate to resist the proposal in the current Disclosure Paper to leave decisions on materiality to the discretion of companies. Rather, the standard should state that companies will report for each country in which they operate.

**3. Allowing exemptions on reporting**

The Discussion Paper proposes allowing companies to opt out of reporting country-specific data where they feel this would “prejudice the position of the entity” (paragraph 6.37) again, at the discretion of the company. We would like to suggest that this would remove the protection of a standard reporting requirement, leaving companies to explain to untransparent host governments why they were not using the exemption. Thus, companies might face pressure not to report, and legal and operational antagonism if they did. Also exemptions and resulting non-reporting will clearly reduce this comparability.

Therefore, we would like to suggest that it is the interests of investors to resist the inclusion of this reporting exemption in the new standard.

**4. Ensuring the coherent package of information needed to assess risk and value is required.**

To fully understand the profile of operations in different political and fiscal regimes, we believe it is necessary to have a coherent package of country-specific information. This would require reporting for each country of:

- a. Reserves
- b. Production volumes
- c. Costs
- d. Production revenues
- e. Benefit streams (payments) to governments
- f. Subsidiaries and properties

We would like to suggest that all of these are needed to allow comparisons between the different kinds of information to judge whether they are complete and appropriate in each country of operation. There is a need to resist the proposed ‘pick and mix’ approach of the Discussion Paper and endorse country-by-country reporting requirements for each kind of information, particularly for the inclusion of productions revenues (paragraphs 6.43-6.44), payments to governments (6.27-6.37), and subsidiaries and properties (6.46-6.47) that are currently rejected or undecided.

#### **5. Addressing the specific risks related to payments to governments by companies.**

Payments to governments are an area of particular risk, related either to misappropriation or mismanagement. Companies within the jurisdiction of anti-corruption legislation (e.g. the US Foreign Corrupt Practices Act and the UK’s new Bribery Act) need information on payments to individual governments to comply. However, all companies should already have full information about payments to individual governments as part of their tax accounting. Thus the costs of producing such information should be much lower than the costs of not producing it. Despite this, the Discussion Paper is calling for more research and inputs on the cost-benefit balance of requiring country-specific reporting of payments to governments (6.27-6.37) before it will make a recommendation to require it.

Different kinds of payments to host governments are prone to different kinds of risk. For example, signature bonuses are prone to misappropriation to personal bank accounts if they cannot be traced, payments in kind can be subject to diversion, very low tax payments can engender political pressure to expropriate assets etc.

For these reasons, we would suggest that would endorse requirements for country-specific disclosure of payments to governments and the disaggregation of this information into the different the categories for disaggregation have already been standardized in the EITI.

It is our sincere hope that [insert name of investor] will see it as important to participate in the development of a new IFRS for the extractive industries. We believe greater country-specific reporting would improve the availability of decision-useful information, improve the stability of investments, and at the same time, give the millions of people living in abysmal poverty in these countries information they need to hold their governments to account.

The IASB is particularly keen to hear from investors how country-specific reporting will support their risk management assessment and their portfolio decisions. To comment on the Discussion Paper please visit the IASB’s website on:

<http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Comment+Letters/Comment+Letters.htm> and follow the instructions.

With thanks,

XXXXX

# Getting Governments and Tax Authorities to support our position

## Why do we need to get the support of governments and tax authorities?

Tax authorities are country-specific institutions. Their purpose (of relevance to us) is to ensure that companies are paying the correct taxes to their own national treasuries. They should share the view with us, therefore, that if information from separate countries is 'lumped together', it is of no use to them.

Like civil society, they are also a legitimate user of company financial reports whose particular needs have been explicitly disregarded by the authors of the Discussion Paper, who use only the needs of capital providers as their criteria for reporting requirements. This should motivate them to a vocal critic of this exclusion.

In its constitution and procedures, the IASB is not directly accountable to governments. But politically, this is a source of tension. We believe the IASB will find it difficult to ignore formal commentary from the formal arms of elected governments, especially in countries that use the IASB's reporting standards.

## What do we need governments and tax authorities to do? When do we need them to do it?

We need them to directly express their support for our 'asks' to the IASB. The clearest route is for them to send written submissions to the IASB in response to the Discussion Draft. This is part of the IASB formal consultation process. All responses are published on the IASB's website, so this would also allow us to quote and refer to such support. We've attached a template letter at the end to help you make the first contact to state the case.

The deadline for written submissions on the **Discussion Paper is July 30<sup>th</sup>, 2010.**

To submit their comments they should go to <http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Comment+Letters/Comment+Letters.htm> and follow the instructions.

In addition, there is a range of supportive activities they can so:

- speak in support of country-by-country reporting requirements in meetings and conferences, especially with accountants, auditors and extractive companies
- meet with members of the IASB and those leading the work on developing the new standard for the IASB – the Extractive Activities Working Group – to express support
- write articles and issues press statements, especially to the business and accounting press

After the deadline for response to the Discussion Draft, there will be further stages where inputs will be needed, such as when the Exposure Draft is released, when the final standard is up for discussion. We don't know exactly when that will be, but we will follow up at that time.

### **Why would governments and tax authorities engage on the development of a new accounting standard (International Financial Reporting Standard, IFRS)?**

To ensure that companies are paying the correct taxes to their own national treasuries, tax authorities need companies to provide country-specific data on all the areas that we are demanding – production size and revenues, costs, payments to governments etc – to be able to judge where they are making their profits and where they are paying their taxes.

To do this, theoretically, they should be able to demand information necessary to assess and monitor this direct from companies, according to their own laws and regulations. However, when dealing with multi-nationals, even sophisticated tax authorities struggle to prevent large-scale tax avoidance, for example through the practice of transfer pricing. Corporate financial reports on a country-specific basis would allow them to compare this information with any presented to them in-country.

In less developed countries, including many resource-rich nations, tax authorities do not have the capacity and resources to track adequately the activities of multi-nationals. Corporate reports may be their strongest source of detailed information.

Finally, many development ministries in the OECD are becoming increasingly focused on supporting better tax collection in less developed countries as the best route to sustainable development financing. As such, they should support improvements in information disclosure that support national tax authorities to manage multi-nationals.

## Which government body should you target?

The actors and systems responsible for tax collection vary greatly across countries. Getting support may require coordination between your Tax Authority and (depending on the different government setups) the Ministry of Finance, Foreign Affairs and Economic/Business. Organizations more closely linked to the work of the Tax Justice Network will have a much better overview of the possible stance of their government on these issues. The first deadline for inputs (July 30<sup>th</sup>, 2010) requires swift action towards potential allies to ensure timely response.

The Tax Authorities will in some countries be part of the **Ministry of Finance/Treasury**. This Ministry will also be engaged in the OECD work on strengthened exchange of tax information, tax havens issues, illicit capital flows etc. which recognize the need for international approaches and standards.

You might also work with the **Ministry of Foreign Affairs/ International Development** to exert leverage on other ministries, using the argument about support to the better mobilization of domestic resources for development.

Some countries might however find that **financial reporting standards** are not within the field of responsibility of either of these Ministries but (as in Denmark) the responsibility of the **Ministry of Economic and Business Affairs**. They may be more resistant to adding to regulations on their 'own' extractive companies, making support from other ministries more important.

Encouraging governments and their institutions to respond to the IASB's discussion draft will therefore depend on a context analysis.

Currently our intelligence suggests that the tax authorities of the following countries might be supportive: UK (although things are uncertain as a result of the elections), South Africa (Minister of Finance supportive), Belgium, Brazil, Germany, France and Norway (potentially supportive). However, this is a fast moving agenda and other countries might have moved on this so it is worthwhile to explore.

## Why would a tax authority support our 'asks' for country-by-country reporting standards in the extractives sector?

### What arguments can you use to convince them to act in support?

Country-by-country reporting by companies would help governments capture a fair share of the value of the resources being extracted by increasing the availability of reliable economic data. By providing standard data across all

countries of a company's operation, it would increase the possibilities for preventing transfer mispricing and other illicit forms of tax evasion and avoidance.

### ***1. Why should tax authorities engage with the IASB and send commentary on the Extractives Discussion Paper***

Key frameworks have established that there are multiple legitimate users of company financial reports and their interests should be attended to in the development of accounting standards.

In their 2008 report entitled "Guidance on Corporate Responsibility Indicators in Annual Reports"<sup>3</sup> UNCTAD said that, in their opinion, financial statements might be used by:

- Investors and financial institutions;
- Business partners;
- Consumers;
- Employees;
- Surrounding community;
- Civil society organizations; and
- Governments and their institutions.

Even in the constitution that frames the work of the IASB itself, it explicitly commits

(a) to develop, **in the public interest**, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards .....to help investors, other participants in the world's capital markets and **other users of financial information** make economic decisions.<sup>4</sup>

The staff summary of deliberations that led to this wording of the constitution in March 2010, stated that the addition of specific reference to investors, "does not minimise the importance of other users of financial information."<sup>5</sup>

Yet the recent Discussion Paper for Extractive Activities, states that "proposals have been assessed only from the perspective of whether capital providers would find the information useful." (paragraph 6.10). **Thus they have chosen to ignore the needs of other users of financial reports, including tax authorities. This is inconsistent with the IASC Foundations own constitution.**

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<sup>3</sup> [http://www.unctad.org/en/docs/iteteb20076\\_en.pdf](http://www.unctad.org/en/docs/iteteb20076_en.pdf) accessed 15-8-08

<sup>4</sup> <http://www.iasb.org/NR/rdonlyres/B611DD9A-F4FB-4A0D-AEC9-0036F6895BEF/0/Constitution2010.pdf>

<sup>5</sup> Staff summary: Annotated constitution showing changes agreed at the January 2010 Trustees' meeting

The Paper gives no explicit consideration of the specific contexts and needs of user groups in less developed economies where so much extraction takes place. The previous Constitution included an objective of taking account of the specific needs of emerging economies. This has been removed in the new Constitution but the latter still includes the objective of taking account of the needs of entities “in diverse economic settings”. We believe that consideration of contexts of low government agency capacity in relation to company oversight and tax collection would add even more weight to the benefits of requiring country-specific information since such governments would benefit from corporate sources of reliable audited data about company production, profits and payments in their own country, and comparative data for this in other countries.

This makes it vital that other users of financial reports, including tax authorities, engage on the development of new standards to ensure their information needs are met.

## ***2. Why focus on getting country-by-country reporting requirements into international accounting standards?***

When dealing with multi-national corporations, tax authorities need to be able to see where a company is making its profits and paying its taxes. This is impossible in current financial reports where accounting standards allow companies to ‘lump together’ information from multiple countries into single figures, hiding the data for particular territories.

One of the potentially most powerful mechanisms to compel country-specific reporting is international accounting standards. The International Accounting Standard Board’s (IASB’s) International Financial Reporting Standards (IFRSs) are the closest mechanisms there is at the moment to a set of global standards for corporate reporting. 110 countries already require or permit their use and the number is growing. This includes the 27 members of the European Union, South Africa, Canada, much of South East Africa, Brazil and much of Latin America. Very importantly ‘convergence programs’ are underway with US, China, India and a number of other emerging economies that would mean IFRSs will also apply to companies registered or raising capital in these countries<sup>6</sup>.

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<sup>6</sup> For a map of coverage, see <http://www.iasb.org/Use+around+the+world/Use+around+the+world.htm>

The IASB has begun consideration of country-specific reporting requirements in its recent Discussion Paper for Extractive Activities and is seeking commentary.

Requirements for country-by-country reporting by extractive countries will give tax authorities a source of audited data on the financial profile of companies operating on their territory. Such an international standard should also generate standardized data that would support comparison of a company's profits and payments in all the jurisdictions in which it operates, assisting the identification of anomalies.

### ***3. Why tax authorities should endorse requirements for country-specific reporting of payments to governments***

Company reporting of payments to government would allow tax authorities to compare this to their data within their own country for receipts. Data on payments in other countries would allow comparison of overall tax payments with company profits and where those payments are being made.

All companies should already have full information about payments to individual governments as part of their tax accounting. Thus the costs of producing such information should be low. Despite this, the Discussion Paper recommends more research on the cost-benefit balance of requiring country-specific reporting of payments to governments.

For these reasons, tax authorities seeking a full understanding companies' payments to governments should comment on the benefits of including country-specific payment requirements for this and the disaggregation of this information into the different kinds of payments to governments using the categories for disaggregation have already been standardized in the EITI.

### ***4. Why resist materiality thresholds that are set in relation to the company's operations and left to the company's discretion***

The IASB's Discussion Paper for Extractive Activities proposes to allow companies to set their own materiality thresholds for country-specific reporting, stating, "It will not always be clear whether a country is material to the entity in this way, but ultimately this decision rests with the entity." (Paragraph 6.24.) This would mean that where companies deem national figures to be insignificant in relation to their international profile, this information would continue to be 'lumped together'

Such a criteria is against the interests of tax authorities. Firstly, small figures might actually represent under-reporting and under-payment and therefore more of a reason to be reported, not less. Also, many multi-nationals have profits and turnovers that dwarf the national economies of many of the countries in which they operate. What may be immaterial to the company may be highly material to a country.

Therefore, tax authorities should express resistance to the proposal in the current Disclosure Paper to leave decisions on materiality to the discretion of companies and in relation to what is material to the company. Rather, the standard should state that companies will report for each country in which they operate. If materiality thresholds are to be set, these should be in terms of materiality to countries, not just companies.

#### ***5. Why the standard should not allow any reporting exemptions***

In addition to leaving companies to determine materiality, the Discussion Paper also proposes allowing companies to opt out of reporting country-specific data where they feel host governments might oppose this (paragraph 6.37).

One of the main rationales for accounting standards is to give consistent data from each company to be able to compare prospects and performance. Exemptions and non-reporting clearly remove this comparability.

Therefore, it is the interests of tax authorities to resist the inclusion of reporting exemptions in the new standard.

#### ***6. Getting the full package of information– why the IASB should avoid including country-specific reporting requirements for some data but excluding others***

To fully understand the profile of operations in different political and fiscal regimes, tax authorities need a coherent package of country-specific information. This would require reporting for each country of:

- a. Reserves
- b. Production volumes
- c. Costs
- d. Production revenues

- e. Benefit streams (payments) to governments
- f. Subsidiaries and properties

However, whilst the current Discussion Paper is recommending a certain degree of country-specific reporting of the first three, it does not recommend the latter three. This will not serve the needs of tax authorities. As Murphy<sup>7</sup> notes, “The package above is not one that contains a series of options, it is an integrated whole, and at that the smallest integrated set of data that can be disclosed to ensure accounting credibility exists.... If their total flows to governments were to be appraised, full country-by-country reporting would add significantly to the available data to provide assurance that the reported data was credible when assessed against available comparative information.” He goes on, “So, for example, the request for information on production revenues is made to ensure that payments of royalties can be validated by comparison of one with the other; a consistent ratio between revenues and royalties being expected over time on the basis of most mineral extraction agreements. He states that the list above “is the minimum needed to appraise with some reliability most of the tax flows that an extractive company will pay.....The data that the IASB is recommending be supplied is not coherent, is not comparable and will not be of high standard as a result.”

Thus, it is in the interest of tax authorities to resist the proposed ‘pick and mix’ approach of the Discussion Paper and endorse country-by-country reporting requirements for each kind of information. In particular, there is a need to express support for the inclusion of requirements related to productions revenues, payments to governments, subsidiaries and properties.

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<sup>7</sup> Country-by-Country Reporting and The Extractive Industries: A review of the International Accounting Standards Board discussion paper on Extractive Activities published in April 2010. (May 2010) Richard Murphy FCA

**5-page summary/Template letter – for NGOs to send to tax authorities on the Discussion Paper for a new reporting standard for extractives**

[Name & Address]

Dear [name]

Re: Bringing the voice of tax authorities to the International Accounting Standards Board - A New reporting standard for the Extractive Sector is in development

We are writing you to direct your attention to the International Accounting Standards Board (IASB) recent publication of a Discussion Paper on a new International Financial Reporting Standard (IFRS) for the Extractive Industries.

The constitution governing the IASB states that it must act in the public interest and address the needs of the various users of company financial reports. In spite of this, the Discussion Paper explicitly rejects consideration of the needs of any users except capital providers/investors. By ignoring the information requirements of tax authorities and other government agencies, we are concerned that this standard will not be in the public interest.

Once finalized, the new standard will take effect in approximately 110 countries worldwide, and if the IASB succeeds in its convergence plans with the US, India, China and others, this reach will be even greater. If public interest actors are able to include key provisions, the new standard could be pivotal in improving the availability of financial information in this critical sector.

In particular, the Discussion Paper considers requiring oil, gas and mining companies to report **country-specific information** on scale of reserves, production, costs, revenues and payments. If fully included, companies would need to report this information for each country of operation.

However, not all this disclosure is currently recommended in the Discussion Paper and there are gaps and weaknesses in the current proposals that will undermine the usefulness of the data to tax authorities.

This is the first step in the IASB's standard-setting process. It is requesting comments in response. The deadline for submissions in **July 30<sup>th</sup>, 2010**.

The full text of the Discussion Paper can be found at <http://www.iasb.org/NR/rdonlyres/735F0CFC-2F50-43D3-B5A1-0D62EB5DDB99/0/DPExtractiveActivitiesApr10.pdf>

We would like to invite [INSERT NAME OF tax authority] to review the IASB's Discussion Paper and comment on it before July 30<sup>th</sup>.

We would like to bring your attention to some of aspects of the discussion paper which we believe will be of particular interest and concern to your organization:

### **1. Rejection of the relevance of the needs of users other than capital providers**

In the constitution governing the IASB, it explicitly commits

(a) to develop, **in the public interest**, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards .....to help investors, other participants in the world’s capital markets and **other users of financial information** make economic decisions.<sup>8</sup>

The staff summary of deliberations that led to this wording of the constitution in March 2010, stated that the addition of specific reference to investors, “does not minimise the importance of other users of financial information.”<sup>9</sup>

Yet the recent Discussion Paper for Extractive Activities, states that “proposals have been assessed only from the perspective of whether capital providers would find the information useful.” (paragraph 6.10). Thus they have chosen to ignore the needs of other users of financial reports, including tax authorities. This is inconsistent with the IASC Foundations own constitution.

#### ***[Section for tax authorities in emerging economies/less developed countries***

Also, the Paper gives no explicit consideration of the specific contexts and needs of user groups in less developed economies where so much extraction takes place. The previous Constitution included an objective of taking account of the specific needs of emerging economies. This has been removed in the new Constitution but the latter still includes the objective of taking account of the needs of entities “in diverse economic settings”. We believe that consideration of contexts of low government agency capacity in relation to company oversight and tax collection would add even more weight to the benefits of requiring country-specific information since such governments would benefit from corporate sources of reliable audited data about company production, profits and payments in their own country, and comparative data for this in other countries. ]

This makes it vital that other users of financial reports, including tax authorities, engage on the development of new standards to ensure their information needs are met. [This need is particularly acute for agencies in emerging economies.]

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<sup>8</sup> <http://www.iasb.org/NR/rdonlyres/B611DD9A-F4FB-4A0D-AEC9-0036F6895BEF/0/Constitution2010.pdf>

<sup>9</sup> Staff summary: Annotated constitution showing changes agreed at the January 2010 Trustees’ meeting

## ***2. Lack of clear recommendation to require country-specific reporting of payments to governments***

Company reporting of payments to government in their annual financial reports would allow tax authorities to compare this to their data within their own country for receipts. Data on payments in other countries would allow comparison of overall tax payments with company profits and where those payments are being made. By providing standard data across all countries of a company's operation, it would increase the possibilities for preventing transfer mispricing and other illicit forms of tax evasion and avoidance.

All companies should already have full information about payments to individual governments as part of their tax accounting. Thus the costs of producing such information should be low.

Despite this, the authors of the Discussion Paper has listened to companies claims that such country-specific data will be expensive to produce, and the Paper shies away from recommending such a requirement, seeking more research on the cost-benefit balance of requiring country-specific reporting of payments to governments.

We would suggest that tax authorities seeking a full understanding of companies' payments to governments at home and in all their countries of operation should comment on the benefits of including country-specific payment requirements for this.

## ***3. Proposal that materiality thresholds be set in relation to a company's international operations and left to the company's discretion***

The IASB's Discussion Paper for Extractive Activities proposes allowing companies to set their own materiality thresholds for country-specific reporting, stating, "It will not always be clear whether a country is material to the entity in this way, but ultimately this decision rests with the entity." (Paragraph 6.24.) This would mean that where companies deem national figures to be insignificant in relation to their international profile, this information would continue to be aggregated together and presented as 'other countries'.

Such a criteria is against the interests of tax authorities. Firstly, small figures might actually represent under-reporting and under-payment and therefore more of a reason to be reported, not less. Secondly, many multi-nationals have profits and turnovers that dwarf the national economies of many of the countries in which they operate. What may be immaterial to the company may be highly material to a country.

Therefore, we would suggest that tax authorities should express resistance to the proposal in the current Disclosure Paper to leave decisions on materiality to the discretion of companies and in relation to what is material to the company. Rather, the standard should

state that companies will report for each country in which they operate. If materiality thresholds are to be set, these should be in terms of materiality to countries, not just companies.

#### ***4. Proposal to allow reporting exemptions***

In addition to leaving companies to determine materiality, the Discussion Paper also proposes allowing companies to opt out of reporting country-specific data where they feel host governments might oppose this (paragraph 6.37).

One of the main rationales for accounting standards is to give consistent data from each company to be able to compare prospects and performance. Exemptions and non-reporting clearly remove this comparability.

Therefore, we would suggest it is appropriate to voice disapproval of the inclusion of reporting exemptions in the new standard.

#### ***5. Proposal to include country-specific reporting requirements for some data but excluding others***

To fully understand the profile of a company's operations in each country would require reporting of:

- a. Reserves
- b. Production volumes
- c. Costs
- d. Production revenues
- e. Benefit streams (payments) to governments
- f. Subsidiaries and properties

However, whilst the current Discussion Paper is recommending a certain degree of country-specific reporting of the first three, it does not recommend the latter three.

This will not serve the needs of tax authorities. As Murphy<sup>10</sup> notes, "The package above is not one that contains a series of options, it is an integrated whole, and at that the smallest integrated set of data that can be disclosed to ensure accounting credibility exists.... If their total flows to governments were to be appraised, full country-by-country reporting would add significantly to the available data to provide assurance that the reported data was credible when assessed against available comparative information." He

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<sup>10</sup> Country-by-Country Reporting and The Extractive Industries: A review of the International Accounting Standards Board discussion paper on Extractive Activities published in April 2010. (May 2010) Richard Murphy FCA

goes on, “So, for example, the request for information on production revenues is made to ensure that payments of royalties can be validated by comparison of one with the other; a consistent ratio between revenues and royalties being expected over time on the basis of most mineral extraction agreements. He states that the list above “is the minimum needed to appraise with some reliability most of the tax flows that an extractive company will pay.....The data that the IASB is recommending be supplied is not coherent, is not comparable and will not be of high standard as a result.”

Thus, it is in the interest of tax authorities to resist the proposed selective approach of the Discussion Paper and endorse country-by-country reporting requirements for each kind of information. In particular, there is a need to express support for the inclusion of requirements related to productions revenues, payments to governments, subsidiaries and properties that are not currently recommended.

It is our sincere hope that [insert name of tax authority] will see it as important to participate in the development of a new IFRS for the extractive industries. We believe that requirements for country-by-country reporting by extractive countries will give tax authorities a vital additional source of audited data on the financial profile of companies operating on their territory. Such an international standard should also generate standardized data that would support comparison of a company’s profits and payments in all the jurisdictions in which it operates, assisting the identification of anomalies.

We also believe the IASB should listen and be accountable, to a broad range of users of financial reports.

To comment on the Discussion Paper please visit the IASB’s website on:  
<http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Comment+Letters/Comment+Letters.htm> and follow the instructions.

With thanks,

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## Getting our own voice heard by the IASB

This section is focused on helping you feed your own views to the IASB and reach targets that are in your countries.

Because our targets are international, and the impact of a new standard would be international, this will be most effective if campaigning and outreach is done in lots of different countries by lots of different organizations.

Please do keep Joseph, Soren and Vanessa informed of your outreach and any response you receive (listed in the Contacts section under 'International').

### What are the routes for us to use?

There are at least three main ways in which we can try to get our own views fed to members of the different arms of the IASB.

1. Send comments on the Discussion Paper from our own organisations
2. Lobby members of the IASB, its Trustees, its Monitoring Committee and its Working Group for Extractive Activities
3. Generate press coverage in support of our 'asks'

#### 1. Sending comments on the Discussion Paper from your organisation

The IASB has published a Discussion Paper relating to the development of the new standard for the extractives and is formally requesting comments. All responses are published on the IASB's website so there is a public record of inputs received.

The deadline for written submissions on the **Discussion Paper is July 30<sup>th</sup>, 2010.**

We have not written template letter because it is important that the letters from NGOs are all clearly individual submission from separate organizations. Last time, over 80 separate letters were sent by members of PWYP. But the IASB used the excuse that they all mentioned PWYP, and had similar formats to misrepresent the scale of inputs by classifying them all as a single input. When they presented the numbers of voices for and against proposals, PWYP was thus presented as only one

voice. Clearly, we will be in a stronger position if the IASB must count each submission separately.

However, we have presented the main issues and ‘asks’ at the end of this section. You can use this to create your own letter, which should ideally be signed by the head of your organization.

If you are a member of PWYP, it is probably better not to refer to this is the letter, to reduce the chances that members’ submissions are not individually counted.

To submit your letter, go to

<http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Comment+Letters/Comment+Letters.htm> and follow the instructions.

After the deadline for response to the Discussion Draft, there will be further stages where inputs will be needed, such as when the Exposure Draft is released, when the final standard is up for discussion. We don’t know exactly when that will be, but we will follow up at that time. The IASB posts updates on work towards a new extractives standard at:

<http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Summary.htm>

## **2. Lobby members of the IASB, its Working Group for Extractive Activities, its Trustees, its Advisory Committee and its Monitoring Committee**

We are working towards a new accounting standard of a type called IFRSs (International Financial Reporting Standards). The overall and slightly complex structure that manages the IFRSs is called the International Accounting Standards Committee (IASC) Foundation. It has separate sections and a Monitoring Committee that we can target with letters and meetings. It would be particularly helpful if you could identify members from your own countries and lobby them.

### **IASB:**

The body that has the official decision-making authority over the content of new standards is the IASB (International Accounting Standards Board). It is therefore a priority target. It currently has 14 members plus the Chair. They come from a range of different countries. Most have a background in corporate finance or accounting. The members do change so it is worth checking for update on the IASB’s website, where they also post biographical data about each member. We have put a summary list of the current members and their home countries at the end of this section, and links where you can find out more about them.

### **Working Group for Extractive Activities**

This is the group that has actually researched and written the Discussion Paper. There are members from Australia, Canada, South Africa and Norway. We have put contact information at the end of this section, and a link to relevant section of the IASB's website on related to their work.

### **Trustees**

The Trustees do not have an official role in the content of new standards. But they do have a role in protecting the due process and reputation of the IASC Foundation as a whole. The Foundation is governed by a body of 22 Trustees whose selection is approved by a Monitoring Board. We have put a summary list of the current members, short biographies, and links where you can find out more about them.

### **IFRS Advisory Council (formerly known as the SAC)**

The IFRS Advisory Council is the formal advisory body to the IASB and the Trustees of the IASC Foundation. It is comprised of a wide range of representatives from user groups, preparers, financial analysts, academics, auditors, regulators, professional accounting bodies and investor groups that are affected by and interested in the IASB's work. Members of the Advisory Council are appointed by the Trustees. The Advisory Committee meets three times a year. We have put a list of its members at the end of this section.

### **Monitoring Committee (external to the IASC Foundations' bodies)**

Under pressure from the G20 to improve the IASC Foundation's public accountability, the Trustees agreed to a mechanism "establishing a link to a Monitoring Board of public authorities....Through the Monitoring Board, securities regulators that allow or require the use of IFRS in their jurisdictions will be able to more effectively carry out their mandates regarding investor protection, market integrity, and capital formation.... The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IASC Foundation Constitution, as well as approving the appointment or reappointment of Trustees. It is envisaged that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate"<sup>11</sup>.

However, the public authorities involved so far are all related to the private financial sector. Its members are the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), Financial Services Agency of Japan (JFSA), and US Securities and Exchange Commission

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<sup>11</sup> [http://www.iosco.org/monitoring\\_board/](http://www.iosco.org/monitoring_board/)

(SEC). The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer.

It is not clear if this will prove a fruitful route for our campaign work, but if you have existing links to members of this group, it might be useful approaching where you can identify a shared agenda with our asks.

### **3. Generating press coverage in support**

Since this will be so country-specific, and you will have your own press contacts, we do not have much to add here....except to encourage you to be as creative and loud as you can! We will circulate press releases and other press prompts at key times for your consideration.

## What to ask for: the problems with the proposals, and what needs to change

### **1. Companies should be required to report for each and every country in which they operate.**

We do not accept the current proposal to allow companies in the extractive industries to establish a cut-off point for country-specific reporting. We are particularly concerned by the proposal to allow the threshold to be set in terms of what is material for the company based on the size of national reserves relative to their international operations. This ignores the fact that reputational and legal risks are unrelated to the scale of operations. We also believe that the proposal to leave the decision on where to set the cut-off to the discretion of the company to decide, will reduce comparability of data, a key principle of international standards. Combined, we are convinced that this will leave the data on many countries still aggregated together and inaccessible.

- **The requirement must be that companies should report for each and every country in which they operate. Suggested thresholds for reporting that are set in terms of what is quantitatively material to the company, and set at its own discretion, should be removed.**

### **2. Information on specific payments to individual governments is essential**

The current proposal recognizes that capital providers have stated that they would find country-specific information on payments to governments useful to their decision-making. Other users of financial reports – like civil society and tax authorities - also anticipate significant benefits in assessing the appropriateness of payments and holding governments to account for their use. Companies should already have this country-specific information to comply with host government taxation reporting. Many will also need it to address anti-bribery and corruption legislation in their home countries. Therefore, additional costs should not be significant, making the proposal for further cost-benefit analysis unnecessary.

- **The IASB should recommend country-specific reporting of payments to governments without the need for further analysis, in the same way that it has done for other reporting requirements.**

**3. A minimum set of information is needed to ensure the coherent and credibility of what is reported by a company for operations per country. These are the six type of data specified in the PWYP proposals.**

The list of reporting types proposed by PWYP is the smallest integrated set of data that can be disclosed to ensure accounting credibility. The current proposal treats it as a set of options by rejecting country-specific reporting requirements related to production revenues, subsidiaries and properties, and by failing to give a clear recommendation relating to payments to governments. But all elements must be required to allow meaningful judgments and comparisons.

Therefore the minimum package must include:

- **Benefits streams (payments) to governments** should be disclosed for each country and broken down by payment types – the proposals do not yet make a clear recommendation
- **Reserves, production quantities and costs** - the proposals make some recommendations here but also leaves scope for only regional and sub-national data in some cases. Data should also be disclosed on a standard country-specific basis.
- **Production revenues** should be disclosed on a country-by-country basis to ensure the consistency of the new IFRS for extractive industries and prevent tax avoidance and evasion – this type of reporting is currently rejected by the proposals
- **The names and locations of each key subsidiary and property in each country** should be reported – the proposal paper claims these are already available but does not offer proof.

**4. There should be no reporting exemptions, especially where these are unnecessary, would undermine comparability and would increase pressure on ethical companies seeking to be transparent**

The current proposal to give companies the option to exempt themselves for reporting payments to particular governments undermines the whole added value of an IFRS. It would remove the protection of a standard reporting requirement, leaving companies to explain to untransparent host governments why they were not using the exemption. Resulting non-reporting will reduce the comparability of company reports. Such exemptions are not needed since regulations like IFRSs would override restrictions of confidentiality clauses if applied in a uniform manner.

- **The IASB should remove the currently proposed exemption. To protect companies, the standard should require disclosure of payments to all governments without exemptions.**

**5. There are many legitimate users of company financial reports other than investors and other capital providers and their needs must be considered by the IASB in the design of standards**

The constitution governing the IASB states that it must act in the public interest and address the needs of the various users of company financial reports. In spite of this, the Discussion Paper explicitly rejects specific consideration of the needs of any users except capital providers/investors.

- **Other users of accounts - including employees, consumers, the public, civil society organizations and governments and their institutions - are each in their own right valid user groups of accounting data. Therefore, their specific information needs must be included in the criteria used to judge the benefits of proposed reporting requirements.**

## **IASB – current members and their home countries (to the best of our knowledge)**

For their full biographies and photos, go to

<http://www.iasb.org/The+organisation/Members+of+the+IASB/Members+of+the+IASB.htm>

Or click on their names for direct links

- **Sir David Tweedie** – Chair - UK
- **Stephen Cooper** - UK
- **Philippe Danjou** - France
- **Jan Engström** - Sweden
- **Patrick Finnegan** – US?
- **Robert P Garnett** – (membership of the Board expires June 2010) – South Africa
- **Gilbert Gélard** - (membership of the Board expires June 2010) - France
- **Amaro Luiz de Oliveira Gomes** - Brazil
- **Prabhakar Kalavacherla ('PK')** -US
- **Dr Elke König** (from July 2010) - Germany
- **James J Leisenring** - membership of the Board expires June 2010) - US
- **Patricia McConnell** - US
- **Warren McGregor** - Australia
- **Paul Pacter** (from July 1010) - US
- **Darrel Scott** (from October 2010) – South Africa
- **John Smith** - US
- **Tatsumi Yamada** - Japan
- **Zhang Wei-Guo** – China

**Working Group on Extractive Activities:  
the people working on the technical content towards a new standards**

Go to

<http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Discussion+Paper+and+Comment+Letters.htm>

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## Trustees – current members and their short biographies

Go to <http://www.iasb.org/The+organisation/Trustees/Trustees.htm>



### **Gerrit Zalm, Chairman**

Former Deputy Prime Minister and Finance Minister, The Netherlands (The Netherlands)

Term expires: December 2010



### **Tsuguoki (Aki) Fujinuma, Vice-Chair**

Immediate Past Chairman and President, Japanese Institute of Certified Public Accountants (Japan)

Term expires: December 2010



### **Robert Glauber, Vice-Chair**

Retired Chairman and CEO, NASD (the private sector regulator of the US securities market); former Under Secretary of the Treasury for Finance (United States)

Term expires: December 2011



### **Clemens Börsig**

Chairman of the Supervisory Board, Deutsche Bank AG (Germany)

Term expires: December 2011



### **Yves-Thibault de Silguy**

Chairman of the Board, Vinci; former member of the European Commission (France)

Term expires: December 2012



### **Marvin Cheung**

Retired Chairman of KPMG Hong Kong SAR (People's Republic of China)

Term expires: December 2011



**Samuel A DiPiazza, Jr**  
Former CEO, PricewaterhouseCoopers  
(United States)  
Term expires: December 2011



**Scott Evans**  
Executive Vice President, Asset Management  
and Chief Executive Officer of the TIAA -  
CREF Investment Management LLC (United  
States)  
Term expires: December 2011



**Oscar Fanjul**  
Vice Chairman, Omega Capital; former  
Chairman. Founder and CEO, Repsol, SA  
(Spain)  
Term expires: December 2010



**Harvey Goldschmid**  
Dwight Professor of Law, Columbia  
University; former Commissioner of the US  
Securities and Exchange Commission  
(United States)  
Term expires: December 2012



**Liu Zhongli**  
President, Chinese Institute of Certified  
Public Accountants; former Minister,  
Ministry of Finance (People's Republic of  
China)  
Term expires: December 2011



**Jeffrey Lucy**  
Chairman, Financial Reporting  
Council (Australia); former Chairman,  
Australian Securities and Investments  
Commission; former Chairman,  
International Forum of Independent Audit  
Regulators (IFIAR)  
Term expires: December 2010



**Pedro Malan**  
Chairman, Unibanco; former Finance  
Minister of Brazil; former President, Central  
Bank of Brazil (Brazil)  
Term expires: December 2010



**Sir Bryan Nicholson**

Former Chairman, Financial Reporting Council (United Kingdom)

Term expires: December 2011



**T. V. Mohandas Pai**

Director and Member of the Board, InfosysTechnologies Limited., and Chairman, Infosys BPO Limited (India)

Term expires: December 2011



**Noriaki Shimazaki**

Special Adviser, former CFO and Member of the Board, Sumitomo Corporation (Japan)

Term expires: December 2011



**David Sidwell**

Former Chief Financial Officer, Morgan Stanley; Director, MSCI Inc., Director, UBS (United States)

Term expires: December 2012



**Paul Tellier**

Former President and CEO, Bombardier and CN; former Clerk of the Privy Council and Secretary of the Cabinet (Canada)

Term expires: December 2012



**Jeff van Rooyen**

Chief Executive, Uranus Investment Holdings; former Vice Chairman, Executive Committee, International Organization of Securities Commissions (IOSCO); former CEO, South African Financial Services Board (South Africa)

Term expires: December 2012



**Luigi Spaventa**

Former Chairman, Commissione nazionale per le società e la borsa (Consob); former Minister of the Budget (Italy)

Term expires: December 2012



**Antonio Vegezzi**

Former President and Director, Capital  
International (Switzerland)

Term expires: December 2010

## IFRS Advisory Committee

### Go to

<http://www.iasb.org/The+organisation/Advisory+bodies/The+SAC/Standards+Advisory+Council.htm>

### Chairman:

Paul Cherry Consultant, Canada.

### Vice-Chairmen:

Charles Macek Non-Executive Director, Telstra and Wesfarmers

Former Chairman, Australian Financial Reporting Council

Patrice Marteau Chairman, ACTEO; Chairman, Accounting Committee, Business Europe

Organisation	Individual	Title
Brazilian Association of Listed Companies (ABRASCA)	Geraldo Toffanello	Accounting Director, GERDAU Group
Accounting Standards Board	Ian Mackintosh	Chairman
Associated Chambers of Commerce of India/ The Stock Exchange, Mumbai (BSE)	Narendra Sarda	Chairman, Deloitte Haskins & Sells
Association of Banks in Singapore	Surya Subramanian	Director, Financial Reporting Surveillance Division, Accounting and Corporate Regulatory Authority (ACRA)
Association of British Insurers/Investment Management Association (IMA)	Liz Murrall	Director of Corporate Governance and Reporting, IMA
Basel Committee on Banking Supervision	Sylvie Matherat	Director, Financial Stability Directorate, Banque de France
BDO International	Andrew Buchanan	IFRS Technical Partner
CFA Institute	Dane Mott	Executive Director, JP Morgan Securities Inc
Conseil National de la Comptabilité	Jean-François Lepetit	Chairman

## Contacts:

### International contacts:

The following people are coordinating and supporting the campaign at the international level.

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In addition, Richard Murphy has been providing a lot of technical support. However, Richard is a freelance consultant, so there are limits on what support he can provide without remuneration.

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## **National contacts**

The people listed below have agreed to be focal points for the campaign in their respective countries. They can be contacted for updates on who has been targeted, planned meetings, events and other news. At the end of the list are leaders who are coordinating activities at the international level, such as meetings with the IASB, and who can be contacted for questions and clarifications on technical issues.

If you are willing to play a leadership/coordination role in a country not already listed, please contact Joseph Williams of PWYP (see previous page).

### **Australia :**

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*(see also the UK based members of the international team)*

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