

Campaign for country-by-country reporting by companies: Action Pack – New International Financial Reporting Standard for extractives

Call for action:

We have a unique chance to make new global rules for company reporting

- **to make companies publish what they pay for oil, gas and minerals**
- **to get information essential to fighting tax evasion and corruption**

A new global standard for extractive company reporting is under development right now. It has the potential to make oil, gas and mining companies:

- publish what they pay to the government of **each country** in which they operate
- publish what they extract, the costs of production, the production revenues and the reserves for **each and every country in which they operate**.

This new standard is called an International Financial Reporting Standard (IFRS). It is being developed by the International Accounting Standards Board (IASB). A formal Discussion Paper has been published. This contains discussion of some of the proposed requirements for country-by-country reporting that Publish What You Pay and the Tax Justice Network have been pushing for a number of years.

But there are big gaps and weaknesses in the proposals and opposition from industry actors risks turning this crucial moment into a missed opportunity. A lot is at stake. Powerful interests are opposed to reforms and will likely pressure the IASB to maintain the status quo.

The time for action is June and July 2010

We are in the middle of the consultation period on these proposals. This is a big opportunity. But it cannot be missed. The deadline for comments to the IASB is July 30th.

What you need to do.....and how this pack can help you

Our top target, the IASB, formally prioritises the views of investors and companies, but we also think it will listen to government agencies and the media. We think it should also listen to civil society. So you will make a huge contribution to the campaign if you can:

1. Get investors to support what we're asking for: in the section called 'Guidance for engagement', we give you information on how to frame the issues in ways that will appeal to investors, ways to identify and target investors, and a 3-page summary/letter to send to them.

2. Get governments and tax authorities to support what we're asking for: later in the same section, we give you guidance on the different government departments to think about, arguments to use with tax authorities and a 5-page summary/letter to send to them.

3. Get the IASB to listen to your voice: later in the same section, we tell you how you can submit your own comments, encourage you to generate media coverage, and show you how to identify and lobby members of the IASB, its Trustees and Advisory Council.

There are other possible targets, like extractive companies and national associations of accountants. But these are best investigated case-by-case so we haven't included them in this general Campaign Action Pack.

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 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 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/investors 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 coherence and credibility of what is reported by a company for operations per country

PWYP has identified six reporting types which would provide the minimum integrated set of data that should be disclosed to ensure accounting credibility. The IASB Discussion Paper treats this minimum package of data 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 make a clear recommendation on this
- **Reserves** – the proposals make some recommendations here but also leave scope for only regional and sub-national data in some cases. Data should also be disclosed on a standard country-specific basis
- **Production quantities** – the proposals make some recommendations here but also leave 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
- **Production and development costs** – the proposals make some recommendations here but also leave scope for only regional and sub-national data in some cases. Data should also be disclosed on a standard country-specific basis
- **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, as 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 from 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 would 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 exemptions. 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.**

What you can find in the rest of this Campaign Action Pack

We've created some other materials to help you get into action vital for the campaign:

GUIDANCE FOR ENGAGEMENT: As described above, this section will help you identify specific targets and how to contact them, frames our issues in ways that will appeal to their agendas and provides 2 page summary/letters to help your communications with these priority groups. This has four sub-sections, to help you:

- 1. Getting investors to support what we're asking for
- 2. Getting governments and tax authorities to support what we're asking for
- 3. Getting the IASB to listen to your voice
- 4. National contact points – people acting as country focal points in particular countries

BACKGROUND BRIEFING: This is a source of detailed information and sources, relating to issues like:

- a. The potential benefits of a new accounting standard – why it will have such reach
- b. Global context for country-by-country reporting: mechanisms, precedents, progress
- c. The IASB (International Accounting Standards Board): how it's structured, how it operates, and debates on its accountability
- d. Process and timeline for the creation of a new reporting standard
- e. Key issues and gaps in Discussion Paper proposals – detailed analysis and references

Where can you get additional support?

A number of people have agreed to be focal points for the campaign in their particular countries. Their names and contact information are listed in section 4 of the Guidance for Engagement. If there is no one listed for your country, you can contact the international contacts. They are:

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Richard Murphy (Tax Research LLP)
has been providing a lot of technical
support. But please note he is a
freelance consultant, so there are
limits on what support he can
provide without remuneration!
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Your support is critical in our effort to mobilize stakeholders to endorse country-by-country reporting. Please keep us updated on developments - We're looking forward to hearing from you!