

To the IASB board
International Accounting Standards Board
Extractive Industries Project
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United Kingdom

Copy:
Sigbjørn Johnsen, Minister of Finance, Norway
Erik Solheim, Minister of International Development, Norway
Jonas Gahr Støre, Minister of Foreign Affairs, Norway

Dear Sir or Madam,

Discussion paper on Extractive Activities 4th April 2010

We are writing to you from Publish What You Pay Norway as a formal response to the discussion paper/2010/1 Extractive Activities on a possible future International Financial Reporting Standard (IFRS).

As you may know, Publish What You Pay Norway is a national chapter of the international campaign Publish What You Pay, which addresses the paradox that 2/3 of the world's citizens, in total 3,6 billion people, live in the most resource rich countries and economies in the world without having access to information in order to exercise democratic control and hold their governments accountable for their governments management of revenues from trade with the country's non-renewable resources. The IASB has to take account of the special needs of emerging economies. IASB has an obligation according to the constitution of the International Accounting Standards Committee Foundation (IASCF¹) to take all users of financial information into account as *your responsibility is to develop a set of high quality, understandable, transparent and comparable global accounting standards in the public interest.*

Publish What You Pay Norway consists of 16 Norwegian organisations that together represent a large part of the Norwegian population. Publish What You Pay Norway considers it to be important to engage a variety of stakeholders in addressing the issues raised in the discussion paper, and as a part of our work we hosted a roundtable in Oslo, Norway which gathered investors, tax authorities and standard setters and a previous prime minister in order to discuss this discussion paper. In addition, we have also held discussion meetings with the PWYP member organisations in Norway.

¹ <http://www.iasb.org/The+organisation/IASCF+and+IASB.htm>

We appreciate that PWYPs proposals have been included and addressed in chapter 6 of the discussion paper, however, we cannot accept the way our demands have been analysed and discussed, or the following conclusions that the IASB project group is suggesting.

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

The current proposal allows companies in the extractive industries to themselves establish a cut-off point for country-specific reporting. Publish What You Pay Norway does not accept this and 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. It will furthermore reduce comparability of data, a key principle of international standards, and thus expose capital providers to a greater risk than necessary.. Combined, we are convinced that this will leave the data on many countries still at an aggregated level and thus inaccessible.

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

2. Information on 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. Companies should already have this country-specific information to comply with host government taxation reporting requirements. Furthermore, for many companies country-specific information is necessary in meeting 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 at the country-level. There are the six types 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 discussion paper do not yet make a clear recommendation
- **Reserves, production quantities and costs** - the discussion paper concludes that this information is expected to be disclosed at country-level but ends by again leaving it in the hands of the entity to define its own materiality threshold. This does not serve the purpose and we reiterate that data should 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 discussion paper
- **The names and locations of each key subsidiary and property in each country** should be reported – the discussion paper claims that this information is already available in other ways. However, there is a considerable difference between voluntary information given by an entity considering the information material – quantitatively or qualitatively – and a mandatory financial reporting standard. We maintain our position that this should be provided as standard information and not left at each entity’s discretion. Also, as this information is claimed to be already available in other ways, it should follow that there would then be no extra costs attached to reporting names and locations of subsidiaries and properties i each country of operation.

4. There should be no reporting exemptions, especially where these are unnecessary, this would undermine comparability and would increase pressure on 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 and increase uncertainty in investors’ decision-making processes. 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. When it comes to trade with non -renewable natural resources, it becomes particularly important

- 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.
- 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. When states allow a private institution to regulate financial reporting

standards for its non-renewable natural resources in a market where investors has vested interest, it should come as no surprise that we demand a particular attention to this issue.

- **This reporting standard is about non-renewable natural resources, which is the legal property of a state. Hence, when the IASB claim to act in public interest, it must recognise that its current focus on investors, as users, become a too narrow focus. In setting standards for non –renewable natural resources belonging to states, the IASB must respect the role they claim to represent and particularly emphasise the public interest as an important user group.**

Publish What You Pay Norway expect that the IASB sets the legitimate asks from PWYP on its active agenda as a part of the process towards a new IFRS6, and that the asks from PWYP is seen treated as a coherent whole of accounting minimum information.

Oslo 30th June 2010,

Kind regards,



Mona Thowsen
National coordinator, Publish What You Pay Norway