

To Den norske Revisorforening,
by Harald Brandsås,
Postboks 5864 Majorstuen
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Dear Harald Brandsås,

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 30th, 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 Den norske Revisorforening to review the IASB's Discussion Paper and comment on it before July 30th. 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 Den norske Revisorforening 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.

Oslo 21st June 2010

With thanks and kind regards,



Mona Thowsen
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