

## **Intermón Oxfam comments on Efrag consultation on Proactive Work**

30 September 2010

Dear Sir/Madam

Intermón Oxfam welcomes the opportunity to provide comments to Efrag's public consultation to identify the areas where it should undertake proactive work.

We share Efrag's proactive strategic aims and encourage it to be a strong European voice in a global environment to achieve them. To do so, we consider Efrag should focus its proactive work at an early stage of the standard-setting process, to anticipate and undertake well-research analysis to address specific reporting issues arising to improve financial reporting in Europe.

We consider that country by country disclosure requirements are specific aspects of financial reporting where Efrag should undertake a proactive work to feed discussion with IASB. The International Accounting Standards Board (IASB) is currently considering adding the development of a new standard for Extractive Activities (IFRS6) to its active agenda and is going to conduct a post implementation review of the Operating Segments standard (IFRS8). Country specific reporting has been considered in the discussions for both standards.

### **Extractive Industries Discussion Paper**

- Efrag comment letter to the IASB public consultation on Extractive Industries Discussion Paper supports "the development of a disclosure suite for extractive activities as relevant disclosures for these activities currently do not exist in IFRS" and regarding country by country reporting "The IASB should conduct the necessary research, for both extractive and other industries where this information may be relevant, to determine how this information would be used by investors and other capital market participants and whether the costs of preparation do not exceed its benefits"
- Almost 20% of the comment letters submitted to this consultation process mentioned the need for alignment with SEC in developing a new IFRS.
- Also, almost 20% mentioned the need to extend the discussion around payment disclosure on country basis to the rest of industry sectors.

### **New transparency regulations in US Law**

On 21 July 2010 the Dodd-Frank financial reform bill passed into law in the United States. The new law includes a provision obliging US-listed companies engaged in oil, gas or mineral extraction anywhere in the world to report how much they pay to

governments as part of their annual filing to the Securities and Exchange Commission. This legislation provides no exemption for foreign issuers

The extractive industries have unique exposure to material country-specific, tax/regulatory and reputational risks. This new listing requirement was passed because it is seen to be of value both to investors (in valuing companies and assessing risk) and to citizens in producing developing countries, who will be able to monitor the collection of revenues generated by natural resource extraction, and therefore fight against corruption and tax avoidance, to guarantee its use for development purposes.

Under the new US requirement, the data should be:

- presented country by country
- presented project by project (more detail than required by EITI)
- Presented electronically in an “interactive data format” by each company, tagged for ease of analysis and accessible to the public through website.
- payment data to be disclosed should include all commonly recognized revenue streams for the commercial development of oil, gas, or minerals: royalties and taxes paid in cash or in kind, dividends, bonuses, license and concession fees. The legislation’s broad definition of payments excludes only those that are “*de minimis*”

This historic measure covers 90% of the world’s largest internationally operating oil and gas companies, and eight of the world’s ten largest mining companies.

Once the bill came into law, the Securities and Exchange Commission (SEC) has 270 days to write the regulations needed to implement the law. Once the final rules are issued, then companies have one fiscal year to organize themselves to respond to the new rules.

### **The European Union must promote transparency worldwide:**

The European Parliament urged, already in 2007, the IASB to “*move beyond voluntary guidelines and support the development of an appropriate accounting standard requiring country-by-country reporting by extractive companies*”

Country-specific reporting has also been considered at the European Council Conclusions on tax and development of 14 June 2010. While reserving a specific attention to the extractive industries companies, the conclusions by the European Foreign Affairs Ministers recommend to work towards an enhanced transparency by all the multinational in order to guarantee the right amount of taxes are paid and a greater accountability ensured.

### **Conclusions**

Although the development of stock exchange requirements the diversity in disclosure and financial reporting results in a lack of comparability that justifies the development of an internationally accepted global standard.

We consider IFRS's as the right way to introduce the country specific disclosure requirements for MNN's to ensure the most universal coverage and level playing field for companies and create a global and enforceable standard that will generate comparable information.

To fully understand the profile of a company's operations and enhance transparency, the IFRS's should establish a uniform global regime regarding issuers' disclosures requiring companies to report a minimum set of specific information for each country in which they have operations.

Therefore, we encourage Efrag to prioritize the following proactive projects:

- Develop European input to the country by country reporting debate: alignment with SEC, cost-benefit analysis, coherence with European policy, answer to all stakeholders needs....
- Develop European input on disaggregated country information to the IASB's post-implementation review of IFRS8 "Operating segments".

We would like to thank you this opportunity to provide comments on Efrag's proactive work.

Yours sincerely,

Jaime Atienza  
Head of Advocacy  
**INTERMÓN OXFAM**