EFRAG
European Financial Reporting Advisory Group

16 July 2010

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Re: Discussion Paper *Extractive Activities*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Discussion Paper *Extractive Activities* ('the DP'). This letter is submitted in EFRAG's capacity of contributing to the IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

EFRAG supports the IASB's objective of developing guidance for companies in extractive industries applying IFRS. We are aware of the diversity in accounting practices across jurisdictions and within the extractive industries. We are also aware of the many difficulties that these entities face in applying current IFRSs in instances where IFRS 6 *Exploration for and Evaluation of Mineral Resources* does not apply.

Overall, we do not believe that that this DP addresses the main accounting issues faced by these industries. We urge the IASB to continue to research financial reporting in the extractive industries and to provide the relevant accounting guidance where necessary.

We have significant concerns about the proposals in the DP. Primarily, EFRAG finds no clear rationale in the DP for the development of an accounting model for extractive activities that is different from that for other industries. EFRAG urges the IASB to assess whether or not current IFRSs can be applied to extractive activities, albeit with application guidance where necessary, before a separate accounting model is developed. Therefore, we do not support the proposals in the DP other than:

(a) the industry scope to the extent that it applies to disclosure requirements;

(b) the use of historical cost as the measurement basis; and

(c) the development of a disclosure suite for extractive activities as relevant disclosures for these activities currently do not exist in IFRS.

In relation to the Publish What You Pay proposals ('PWYP proposals') we note that, while some users of financial information may find the disclosures useful to assess the investment and reputational risks relating to an entity, it is not clear how investors and other capital market participants would use the information to assess the financial position and performance on an entity. 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. In EFRAG's view these disclosures would be subject to the materiality requirements in the *Framework for the Preparation of Financial Statements* and IAS 1 *Presentation of Financial Statements*.

The appendix to this letter details our comments and concerns.

If you wish to discuss our comments further, please do not hesitate to contact Marius van Reenen or me.

Yours sincerely

Francoise Flores
EFRAG, Chairman

Appendix

EFRAG's response to the questions asked in the DP

SCOPE OF EXTRACTIVE ACTIVITIES

Question 1

In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas. Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

EFRAG's response

The project scope is appropriate for disclosure purposes, but the DP fails to provide a rationale for developing a separate accounting model for extractive activities.

The DP fails to address those accounting issues that are creating practical difficulties for preparers, auditors and users, such as production sharing agreements, farm-in and farm-out arrangements, and exchanges of licenses and information.

1 EFRAG shares the project team's conclusion that the minerals and the oil & gas industries have very similar risks and activities. EFRAG agrees with the industry scope of this project to the extent that it covers disclosure requirements for upstream minerals, oil and natural gas activities. EFRAG also agrees that only the upstream activities of these industries should be addressed. We acknowledge that entities in these industries usually have information about physical reserves that is useful to users and unique to these industries.

2 Having said that, EFRAG is concerned about the accounting treatment of those other activities that are currently within the scope of IFRS 6 *Exploration for and Evaluation of Mineral Resources* ('IFRS 6') but that are not addressed in this DP. It is unclear how these activities will be treated in the future. EFRAG believes that it would be best if the IASB clarifies its intention in this regard. In the absence of proposals to the contrary EFRAG would support the application of current IFRS to these activities.

3 EFRAG also finds that the DP fails to address those accounting issues that are creating practical difficulties for preparers, auditors and users. Among these issues are accounting for production sharing agreements, farm-in and farm-out arrangements, and exchanges of licenses or information resulting from exploration activities. EFRAG would urge the IASB to consider these transactions in developing future accounting guidance irrespective of whether a separate IFRS for extractive activities is developed.

APPROACH

Question 2

Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

EFRAG's response

EFRAG supports a single extractive activities model only to the extent that it applies to disclosure requirements.

A separate accounting model would only be justified if a clear rationale could be developed that supports this.

4 EFRAG is a firm supporter of principle-based accounting standards that are applicable irrespective of the industry in question. EFRAG finds that the DP does not develop a clear rationale for proposing a separate recognition and measurement model for extractive activities. Therefore, EFRAG does not support the development of a separate IFRS for extractive activities, beyond disclosure requirements, based on the arguments put forward in this DP. Our detailed comments in this regard can be found in Question 4.

5 However, EFRAG does support a single extractive activities model to the extent that it applies to a disclosure model. Such support is based on the similarities in risk, processes and rewards that have resulted in comparable practices evolving for both industries notwithstanding the lack of guidance to achieve this. Our detailed comments in this regard can be found in Question 8 and 9.

DEFINITIONS OF MINERALS AND OIL & GAS RESERVES AND RESOURCES

Question 3

In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

EFRAG's response

Principle-based definitions for reserves and resources should be developed rather than endorsing the definitions of third parties. The DP already contains the building blocks of such definitions.

6 EFRAG does not support this proposal in the DP. EFRAG is concerned that the approach currently proposed may have unintended governance and endorsement implications.

7 Rather, EFRAG would urge the IASB to develop principle-based definitions of reserves and resources that would allow entities to apply the relevant geological

and engineering codes as maintained by recognised industry bodies. The DP already provides an example of such a definition in paragraph 2.4. Principle-based definitions can be based largely on the summaries of the CRIRSCO and PRMS models as discussed in paragraph 2.29 of the DP. A similar exercise could be performed for resources and the other sub-definitions. Alternatively, the SPE and CRIRSCO could be asked to perform an exercise to develop such definitions based on their models.

8 Such an approach would not complicate the accounting and disclosure model developed in any future IFRS.

MINERALS OR OIL & GAS ASSET – RECOGNITION

Question 4

In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a 'minerals or oil and gas property'. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights. Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised and when should they be recognised initially?

EFRAG's response

EFRAG disagrees with the proposals of the DP.

Other accounting solutions should have been considered, most notably the application of current IFRSs.

We do not support the use of an asset definition that is not based on the current Framework definition, or the omission of the probability criterion in the capitalisation of costs related to information resulting from exploration and evaluation activities.

9 EFRAG disagrees with the proposals of the DP. As noted in Question 2 above, EFRAG does not believe that the project team has justified why separate recognition and measurement requirements for extractive activities are necessary. EFRAG therefore questions why the project team did not consider, as a starting point, the application of current IFRSs within these industries. EFRAG notes that there are other industries that perform activities that are comparable at a conceptual level. These include among others pharmaceutical activities, software development and patent designers. These industries currently apply general IFRSs to all their activities.

10 EFRAG conceptually supports an assessment of the implications of applying current IFRSs to extractive activities. Such an assessment could take a blank slate approach such as the project team proposes in the DP, or could be an assessment of current practices such as successful efforts accounting against the provisions of IAS 38 *Intangible Assets*, for instance. An extractive activity interpretation of accounting for internally generated intangible assets could then be developed.

11 EFRAG notes legal rights are subjected to the recognition criteria of the Framework. However, other items such as information resulting from exploration and evaluation activities are treated as enhancements to the recognised legal rights without any

visible application of the asset definition or recognition criteria. EFRAG does not support such an approach to asset recognition in any industry. EFRAG is not convinced information obtained from subsequent exploration and evaluation activities always provides an enhancement to a legal right. EFRAG notes that entities in other industries obtain information in conducting their business. However, in those industries such information is not considered to change or enhance a legal right, even if it is used by management to make better decisions.

12 EFRAG also finds that the DP fails to express clearly the rationale for treating costs subsequent to the acquisition of the legal rights as enhancements. The DP argues that these costs are inseparable from the legal rights and affect the value of such legal rights. EFRAG does not agree with this assessment. We are aware of instances where such information is traded independently of the legal rights under which they were generated. This often occurs where the exploration right does not automatically entitle the holder to the extraction right, and in many joint arrangements where one party contributes a body of information while another party assumes those costs related to the acquisition or further development of the relevant legal rights.

13 EFRAG considers that a full individual assessment of the legal rights, information, additional rights and approvals and other items should be performed with the current Framework as the reference. Items that are separately identifiable and that have different useful lives should be assessed separately.

MINERALS OR OIL & GAS ASSET – UNIT OF ACCOUNT

Question 5

Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team's view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The project team's view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

EFRAG's response

In EFRAG's view, the IASB should explain why the 'unit of account' has to be defined in the DP rather than in a wider context of the Framework.

14 Although EFRAG understands the importance of accurately defining the unit of account for extractive activities, particularly in the context of the asset recognition proposals presented in this DP, we believe that the IASB should consider the unit of account in a wider context as part of the Framework project.

15 In our view, the unit of account for extractive activities should be based on all the relevant facts and circumstances that reflect the risks and rewards related to a deposit without a bright-line upper limit.

MINERALS OR OIL & GAS ASSET – MEASUREMENT

Question 6

Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties. The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information. The project team's view is that these assets should be measured at historical cost but that detailed disclosure about the entity's minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

EFRAG's response

We agree that historical cost is the most appropriate measurement basis.

16 EFRAG agrees that historical cost is the correct measurement basis both at initial recognition and for subsequent measurement because the alternatives, current value and fair value, would subject preparers to significant cost and effort and would not provide users with relevant information.

17 We understand there is a broader debate about the usefulness of historical cost and fair value measurements in financial reporting. Under current IFRS, most non-financial items are normally measured and reported at historical cost and we see no rationale why the extractive industry should use a different measurement basis until that debate is resolved for all industries.

18 The project team concludes that historical cost is not useful for making decisions. However, the users that we have spoken to have indicated that historical cost measurement is a key indicator of the stewardship and efficiency of management, provides insight into the cash investment practices of an entity, and is a good indicator of future tax deductions. In addition, it is crucial for determining the return on capital employed by an entity.

TESTING EXPLORATION ASSETS FOR IMPAIRMENT

Question 7

Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 *Impairment of Assets*. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties, management should:

(a) write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and

(b) apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

Do you agree with the project team's recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

EFRAG's response

The DP has not convinced us that the impairment proposals are superior to the application of IAS 36 *Impairment of Assets*. In fact, the need for separate guidance is in our mind further indication that the recognition proposals are not appropriate.

We are very concerned about the precedent that the proposals may set – an asset exists until proven otherwise.

19 EFRAG believes that the asset continuum approach creates difficulty in performing impairment assessments. This includes ensuring indications of impairment are robust enough to ensure that an entity does not recognise assets in its statement of financial position that may not result in future economic benefits. Instead, EFRAG believes that if information was subjected to the asset recognition test in the Framework, separate indications of impairment may not be required.

20 As stated in the response to Question 4, we support an assessment of the applicability of current IFRS to these activities. In our opinion this would be an improvement because, consistent with other industries such as pharmaceuticals and software development, impairment testing would occur only at the point of technical feasibility and commercial viability. Prior to this stage exploration costs would most likely be expensed.

21 If, however, the IASB were to pursue an asset continuum approach then we would agree that alternate impairment proposals are appropriate because reliable evidence to support an impairment calculation is generally only available towards the end of the exploration and evaluation phase. Applying the impairment indicators in IAS 36 would almost always lead to an immediate impairment charge when evidence is not yet available to support the carrying amount of the capitalised asset. In this regard we do not support the proposal that an exploration property should only be written down when there is a high likelihood that the carrying amount would not be recoverable. This is the opposite notion of IAS 36 and may set the precedent that an asset exists until proven otherwise. As we note in our response to Question 4, EFRAG believes that an asset exists only when it meets the asset definition and recognition criteria in the Framework. We do, however, support the proposal to include additional impairment indicators for these assets similar to those included in IFRS 6 currently subject to the caveat at the beginning of this paragraph.

DISCLOSURE OBJECTIVE

Question 8

In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:

(a) the value attributable to an entity's minerals or oil and gas properties;

(b) the contribution of those assets to current period financial performance; and

(c) the nature and extent of risks and uncertainties associated with those assets.

Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

EFRAG's response

Disclosures for extractive activities are fundamentally important in understanding the financial performance and position of an entity.

EFRAG supports the disclosure objectives to the extent that they do not require current or fair value disclosures.

22 Although a clear rationale is not presented in the DP, EFRAG understands that the complexity of the activities within extractive activities creates unique challenges that require disclosures that are somewhat different from other industries. Although the economic characteristics of these activities are not unique, what sets them apart from other industries is the fact that mineral or oil and gas deposits are finite, quantifiable resources. Disclosure of resource quantities is meaningful as it provides a suitable starting point for determining the future cash flows that an entity can generate. This differentiates extractive activities from the pharmaceutical and software development industries that do not have similar quantifiable resources. From this perspective, EFRAG supports the development of guidance on the disclosure requirements for extractive activities.

23 EFRAG supports the disclosure objectives to the extent that they do not require current value or fair value disclosures. As stated in our response to Question 6 we do not support such measurement in this industry, and the users we have talked to agree with this assessment. We also note that the project team acknowledges that users have indicated that they would not rely on such values. EFRAG therefore expects such disclosures to show a negative cost/benefit relationship. For our detailed assessment, please refer to our response to Question 9.

24 However, EFRAG supports the disclosure objectives to the extent that they result in disclosures that enable users of financial statements to estimate future cash flows and to evaluate the value attributable to an entity's minerals or oil and gas assets.

DISCLOSURES THAT MEET THE DISCLOSURE OBJECTIVE

Question 9

Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:

(a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;

(b) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;

(c) a reconciliation of changes in the estimate of reserves quantities from year to year;

(d) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;

(e) separate identification of production revenues by commodity; and

(f) separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).

Would disclosure of this information be relevant and sufficient for users? Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

EFRAG's response

The proposed disclosures are too onerous, voluminous and often address the same disclosure objective in different ways.

Both proved and probable reserves should be disclosed. We also think developed and undeveloped reserves should be presented separately.

Extractive activities are not sufficiently different from other activities to warrant current value or fair value disclosures. We strongly oppose such proposals.

Information about costs incurred, based on a time-series, and disaggregated by phase and stage of development (i.e. developed, undeveloped reserves etc) is important.

25 As mentioned in our response to Questions 1, 2 and 8, EFRAG supports the objectives in relation to disclosures. In our view the IASB should primarily focus on disclosure guidance and the resolution of contentious accounting issues such as production sharing agreements. However, we note that some of the proposed disclosures aim to achieve the same disclosure objective. For example, the disclosures about reserve quantities and current values are overlapping. The IASB should eliminate such overlap and focus on those remaining disclosures that truly provide a better understanding of the entity's financial position, performance and change in financial position.

26 As disclosures of resource quantities are generally not required to be audited, the IASB should carefully consider the placement of such information within the annual report.

Reserve quantities

27 EFRAG understands the importance of these disclosures in the wider sense of the financial report. We also understand their importance in estimating future cash flows relating to an entity's activities. As such, we support the disclosure of reserve quantities in the financial report. Specifically, we support the following:

(a) Proved and probable reserve quantities. EFRAG agrees that entities should disclose information about those quantities that will probably result in future cash flows as this is useful in making economic decisions. We do not agree with those who argue that including probable reserves would mislead users who do not understand the uncertainties related to the quantities. Users of financial statements are expected to be diligent and knowledgeable, and as such should understand the risks related to the quantities disclosed assuming that proved and proved-and-probable quantities are clearly presented separately. We also think it is important that users are aware of reserve quantities that might be produced in the foreseeable future and therefore believe disclosures should separately identify reserves that are developed from those that are undeveloped;

(b) As noted in Question 3, EFRAG is supportive of developing principle-based reserve definitions. We therefore support clear disclosures relating to the estimation method and those persons who perform the estimates. We would, however, limit disclosures about individuals to qualifications, experience and relationship with the entity rather than the names of such individuals;

(c) Like other IFRSs that rely heavily on management judgement, disclosures of the main assumptions are important. These disclosures provide valuable information in determining the value of the reserve quantities disclosed; and

(d) Due to the unique uncertainties of reserve quantities and their propensity to change, EFRAG agrees that a numeric reconciliation as proposed is important to understand movements in the quantities. Narrative disclosures to explain the changes are equally important in this regard.

28 However, within the context of IFRS disclosures in the notes to the financial statements, we have several significant concerns:

(a) A sensitivity analysis is only useful if it assists users to understand the effect of a change in one variable on the quantities disclosed. This is not the case for reserve quantities. Changing one variable potentially changes other variables. Therefore, including static variables would distort the information and render it less decision useful as it is disconnected from economic reality. The IASB acknowledges this is the Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements,* published in June 2010, where it proposes that the effect of correlation be considered when providing a sensitivity analysis of fair value measurements categorised within level 3 of the fair value hierarchy. Furthermore, providing a sensitivity analysis such as this (with or without considering the correlation between inputs) would equate to a recalculation of the reserve quantities. This would, in our view, be an unnecessarily costly exercise. EFRAG therefore strongly disagrees with this disclosure requirement. The users we have spoken to support EFRAG's view.

(b) EFRAG is strongly against standardised quantity disclosures if they result in quantities that cannot be reconciled with the definitions of reserves and resources. Firstly, such disclosures would be onerous to prepare, as they would be significantly different from those used for internal management purposes. Secondly, the relevance of these disclosures diminishes because they are disconnected from the information used by management to make decisions. The comparability gained from the disclosures would be heavily outweighed by the loss of relevant information in our view. However, where reserves and resources are determined based on definitions that require the use of parameter based inputs that are largely standardised we assume that such quantities would also be used for internal planning purposes. In these instances EFRAG would not be opposed to the disclosure of such quantities.

(c) We question the focus on commodity price as the primary variable in the calculation. We note that in many jurisdictions the discount rate or exchange rate could have an equally significant impact on the calculation, while at certain commodity prices the cost structure is perhaps the primary variable.

In all instances the 'production schedule' is a key variable. Final guidance on disclosures should consider this.

Current Value Measurement

29 EFRAG understands from the DP, and our interaction with users, that current value disclosures in financial statements would not be relied upon as such, but would rather serve as a reference point for the users' own calculations. EFRAG believes that the reserve quantity disclosures will provide such a reference point and therefore we do not support this type of disclosure.

30 In addition, we believe that the IASB should require disclosure of reserve quantities or current value (fair value) but not both. In our opinion, there may be duplication of information thereby subjecting preparers to significant costs that could be avoided. For example, reserve quantities and current or fair value disclosures both require disclosure of the main assumptions.

31 However, should the IASB decide to develop current value disclosures as proposed in paragraph 5.76 of the DP we believe that while Alternative A is more consistent with the DP's disclosure objective than Alternative B, we think that neither option is appropriate for the following reasons:

(a) both alternatives subject preparers to significant preparation costs and effort while users have already indicated that they would not rely on the values disclosed;

(b) Alternative A would provide very subjective information particularly at the exploration phase, whilst Alternative B is rules-based rather than principles-based. Also, standardised pricing is not present in any other current IFRS;

(c) neither alternative provides users with relevant information and accordingly the proposals do not meet the objective of financial reporting; and

(d) major geographical location disclosures would be more useful if the inputs were based on principles and not rules.

Fair Value Measurement

32 EFRAG has not considered the fair value disclosure proposals because we support historical cost as the most appropriate measurement basis.

Production revenue

33 We do not agree that the geographical production revenue is only relevant if the commodity price is subject to local market conditions. If an entity believes there are material geographical risks for its activities, a geographical disclosure of production revenue should be included to be consistent with that.

34 We consider it would be useful to disclose the revenue related with production sharing agreements and to indicate the production revenue of equity investees.

Exploration and development costs

35 EFRAG supports the direction of the proposed cost disclosures. We think that the proposals could be improved by providing transparency into the amount of total project cost, disaggregated to show the current potential of those cost to ultimately

result in future economic benefits. Such disclosures would allow users to determine the return on capital employed. Users have indicated to us that this is very important in a historical cost environment.

36 In addition, it may be useful to consider the following additional disclosures in order to provide useful information related with these costs and their related risks:

(a) Amounts of costs that are still capitalised after the completion of the drilling with an ageing and description of the projects;

(b) Results of operations (revenue, production, exploration, depreciation and amortisation, income tax and result). If reserves attributable to equity-method investees were disclosed, it would be useful to disclose the same items for equity method investees.

(c) Descriptions of wells drilled, success rates and wells capitalised without further development activities undertaken.

(d) Information about projects that are about to be commissioned, or that will begin production in the near future, with an indication of the timing.

PUBLISH WHAT YOU PAY DISCLOSURE PROPOSALS

Question 10

Chapter 6 discusses the disclosure proposals put forward by the Publish What You Pay coalition of non-governmental organisations. The project team's research found that the disclosure of payments made to governments provides information that would be of use to capital providers in making their investment and lending decisions. It also found that providing information on some categories of payments to governments might be difficult (and costly) for some entities, depending on the type of payment and their internal information systems.

In your view, is a requirement to disclose, in the notes to the financial statements, the payments made by an entity to governments on a country-by-country basis justifiable on cost-benefit grounds? In your response, please identify the benefits and the costs associated with the disclosure of payments to governments on a country-by-country basis.

EFRAG's response

While some users of financial information may find the disclosures useful to assess the investment and reputational risks relating to an entity, it is not clear how investors and other capital market participants would use the information to assess the financial position and performance on an entity.

The IASB should conduct the necessary research 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.

In EFRAG's view these disclosures would be subject to the materiality requirements in the Framework and IAS 1.

37 In relation to the PWYP proposals, we note that they may provide relevant information to some users of financial statements about the investment and

reputational risks relating to an entity. In this regard our outreach activities and due process have indicated the following:

(a) The users we have spoken to have indicated that the information provided by these proposals will be secondary to those already proposed and considered in Question 9 above;

(b) Preparers and auditors have indicated that the proposed disclosures might be costly if materiality is set at a much lower level than is currently required by IFRS;

(c) There have been calls to simplify and reduce financial statement disclosures so that the importance of the financial information is not diminished by the sheer volume of disclosures provided; and

(d) The proposals may be equally relevant for entities that do not engage in extractive activities.

38 We therefore urge the IASB to conduct the necessary research activities to:

(a) understand how investors and other capital market participants would use this information in making economic decisions; and

(b) confirm that the costs of preparation do not outweigh the benefits.

In performing this research, we stress the importance of the materiality filter, as it is currently defined the Framework and IAS 1, in determining what information should be presented in the financial statements. In EFRAG's view materiality is always assessed in relation to the reporting entity. Only upon the completion of such research and exposure of the results will it be possible for us to accurately comment on the cost/benefit implications of these proposals.

39 Lastly, we refer to our comment letter on the IASB's ED *Management Commentary*[1] where we emphasise the importance of the development of placement criteria for information in the financial report. In EFRAG's view, it remains to be seen if these proposals are appropriate for the financial statements or the wider financial report.

[1] Please refer to our letter to the IASB on the ED *Management Commentary*, submitted on 9 March 2010.