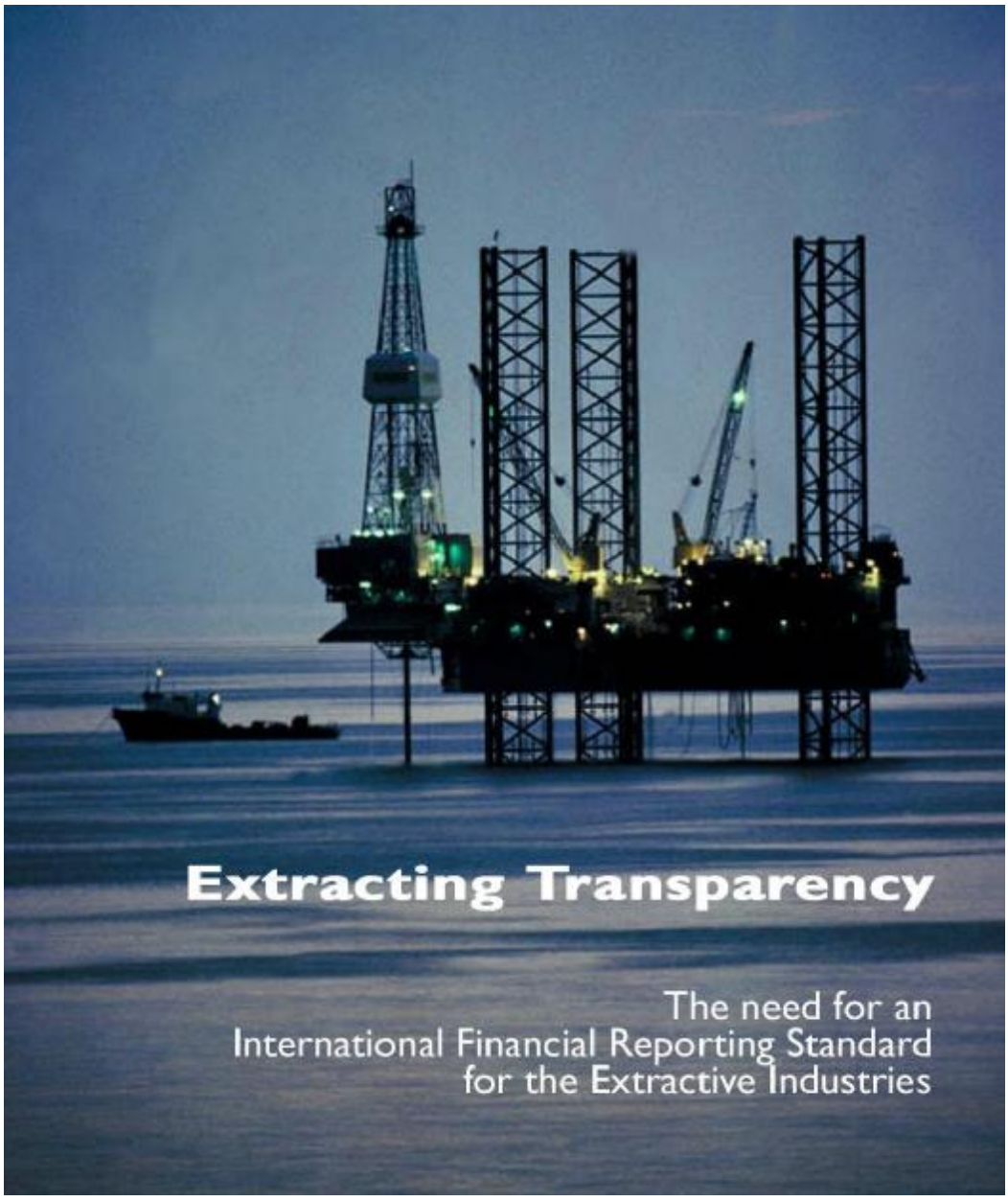

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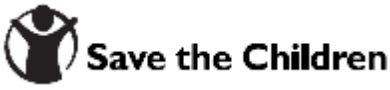
Global Witness is a British based non-governmental organisation which focuses on the links between environmental and human rights abuses, especially the impacts of natural resource exploitation upon countries and their people. Using pioneering investigative techniques Global Witness compiles information and evidence to be used in lobbying and to raise awareness. Global Witness' information is used to brief governments, inter-governmental organisations, NGOs and the media. Global Witness has no political affiliation.

www.globalwitness.org

Save the Children UK were principal partners to Global Witness in undertaking this project.



www.savethechildren.org.uk

Global Witness and Save the Children were joined by the following in undertaking this work:

www.careinternational.org.uk

www.cafod.org.uk

www.transparency.org.uk

www.soros.org

These organisations are founding members of Publish What You Pay, an international coalition of over 280 NGOs aiming to increase revenue transparency in the extractive industries:

www.publishwhatyoupay.org

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An IFRS for the Extractive Industries

We are convinced that there is a need for an International Financial Reporting Standard (IFRS) for the extractive industries (EI).

We know we are not alone in thinking so:

- the International Accounting Standards Committee concluded that this was the case in 2000;
- all the large firms of accountants involved in this sector seem in favour of such a move, and
- IFRS 6 makes clear it is but a stepping stone on the way to such a standard.

In the light of this near universal view this paper sets out our special concerns about what such an IFRS should cover. These are set against the background of the major changes in accounting in the EI since the last large scale debate on an IFRS for the EI took place in 2000. These changes include:

- the launch of the Extractive Industry Transparency Initiative (EITI);
- endorsement of the EITI by the World Bank and the G8;
- the work of the Global Reporting Initiative (GRI) which has issued standards for voluntary reporting by the EI for corporate social responsibility (CSR) purposes;
- active interest on the part of the NGO sector in this issue through the Publish What You Pay (PWYP) campaign.

The world of accounting has changed too. Enron, Parmalat, WorldCom and other corporate failures have changed expectations of business. The environment of reporting has changed as a result, whilst taxation is the latest area to have been subject to scrutiny. So significant has the change been in tax that in March 2005 KPMG issued a report saying

> *"Tax has changed dramatically in recent years. Its public profile has become much more conspicuous, it has acquired moral, ethical and social dimensions that have never been discussed before and, for these reasons, the business management issues associated with tax have become more complicated, more subtle, more steeped in risk and much more challenging."*

This is a statement we find hard to challenge.

But the EITI process and issuing CSR reports on taxation payments is one thing. An IFRS is about mainstream corporate reporting. There is a difference between the two. EITI and CSR are about reporting and accountability. Mainstream financial reporting is primarily about decision making. As such, to suggest that something should be covered by an IFRS is to suggest it has use in the decision making process some or all users want to undertake about a company based on its financial statements.

What we seek to show in this paper is that country-by-country reporting on three key issues is vital information for making useful decisions about companies engaged in the EI. Those issues are:

- commercial performance;
- taxes and other benefits paid to governments, and
- reserves.

We happen to believe that is the case whether the user of the financial statements provides the company with capital or is engaged with it in some other capacity.

In preparing this report we have engaged the services of Richard Murphy, an independent chartered accountant. He has practiced as an accountant in the UK for more than 20 years. He now writes extensively, is a visiting fellow at the Centre for Global Political Economy at the University of Sussex and advises governments, local authorities and NGOs on taxation, finance and accounting issues. He is a member of the research committee of the Association of Chartered Certified Accountants. We have also consulted with a wide range of other professional people and EI experts.

We believe that if adopted the recommendations made in this report will benefit:

1. shareholders;
2. other providers of capital to a company;
3. management of the entities concerned;
4. employees and other directly engaged stakeholders;
5. governments;
6. the local populations affected by the upstream EI;
7. those with social concern.

We suspect that few changes in corporate reporting could have such impact in one sector. That is why we have taken the unusual step of engaging in this process. It is our hope that others will also wish to do so as well. For that reason questions have been included in this report. These are summarised as an appendix for convenience. If you would like to answer those questions and to provide us with feedback, also indicating when doing so any suggestions you have to make and what experience you might have to offer on the issues in question, we would be delighted to receive your comments. Please send completed questionnaires and comments by email to Hugo Sintes at Care International UK at sintes@careinternational.org, or by fax to him on +44 (0) 20 7934 9335 or by post to Hugo Sintes, CARE International UK, 10-13 Rushworth Street, London SE1 0RB, United Kingdom. A copy of the questions is available as a Word file download to assist those who wish to answer them from the Publish What You Pay website at http://www.publishwhatyoupay.org/ifrs.

Country-by-Country Data

Segmental reporting of financial data on a country-by-country basis by transnational corporations (TNCs) is rare at present. It is not required by most financial reporting standards. It is only commonly declared:

1. for the country of incorporation or listing (which are usually, but not always the same);
2. when a company undertakes most of its trade in one country.

In those cases the territory concerned is treated as a reporting segment in its own right. But these two exceptions apart, it is not common practice.

Despite this many, if not most, TNCs actually structure their operations on a country-by-country basis. They do, as a matter of fact, have separate subsidiary companies, or groups, in most, if not all, the countries in which they work. There are several benefits from doing so. For example, having a local company usually makes compliance with local law in the following areas much easier:

- company law;
- contract law;
- employment law;
- taxation law, whether it be on company profits, sales, employment or anything else.

In addition, there are clear benefits in having a local subsidiary in each country in which a company operates to limit risk. These benefits include:

- limiting exposure to loss in each country to the limit of the assets engaged there, and nowhere else;
- reducing political risk in the event of nationalisation or other such action to those assets actually owned by subsidiaries operating in the country and nowhere else;
- delineating insured risks between nation states.

There are also commercial advantages to such a structure:

- it helps in the measurement of local performance;
- local management is more easily motivated;

- a commitment to the territory is demonstrated, which can be exploited for commercial advantage;
- local partnership arrangements can be more easily accommodated in the ownership structure if that is necessary.

The result is that most TNCs have a substantial number of individual company subsidiaries, each of which will:

1. report their own results in accordance with local law as well as in accordance with the TNCs own accounting policies;
2. report and settle their own taxation liabilities;
3. have their own distinct management structures.

The outcome is that almost all TNCs have data on key issues relating to their performance available on a national basis. This is so even when this might appear to be in conflict with operational issues which might arise when, for example, a natural resource straddles an international boundary. The reason is simple; such issues have to resolved for taxation purposes in any event.

It is our belief that if companies organise on this basis because it minimises their risk, then there is good reason why they should also report on this basis. The reason is clear: to do so will minimise risk for the users of their financial statements, whoever they might be. And since risk minimisation is critical to much decision making, we believe that country-by-country segmental reporting is decision-useful information that must be required to be disclosed by any IFRS for the EI.

Questions:

1. Do you accept that most TNCs do have a corporate structure that is country based?
2. Do you agree that country based information is therefore available to most TNCs?
3. Do you agree with the reasons we have given for TNCs adopting this corporate structure?
4. Do you agree that if TNCs adopt these structures to minimise risk then they should share those benefits with all their stakeholders?

Reasons for Country-by-Country Reporting

The users of the accounts of upstream EI companies can be divided into three broad groups.

The first group are professional providers of capital, whether that is in the form of equity share capital or loans. This group are distinguished from the other users of financial statements considered in this report by the fact that they tend to have direct access to the companies in which they invest, and can therefore make direct requests for the information that they need to assess the performance of any company in which they hold, or might hold, an investment.

The second group are those providers of capital who act independently and who make their own investment decisions. This group are usually shareholders and do not provide loan capital.

The third broad group of users are all other stakeholders of the company, whether they are also investors or not. This group use the financial statements of a company but have no legal right to receive them in most cases.

From the point of view of financial reporting, the differences between these user groups are significant. This is because whilst for professional investment managers the audited financial statements of a company impart little or no additional information to them over that supplied on a regular, in depth basis by the companies themselves, for ordinary shareholders and other stakeholders in the company the annual audited financial statements of the company are by far the most important information they have about its operations in each year.

This report is about the need for an IFRS for the Extractive Industries. IFRSs only have to relate to the reporting a company makes in its annual audited financial statements. Other financial information that it produces can, broadly speaking, be in any form it chooses that suit its own needs. It is this other information that might be shared with professional investment managers. As such in making the recommendations that we do in this report we realise that they may not be as important to professional investment analysts as they are to other users of audited financial statements. That being said though, we think all users of financial statements will benefit, even if differently, from at least some of the information that we suggest should be disclosed and that, in combination, all might be useful. This suggestion fits well with existing evidence that users of information in this sector already use data available to them in quite different ways. For example, PricewaterhouseCoopers found in 2003[1] that of 25 indicators that they thought might be of importance within the mining sector, mining companies themselves, investment analysts and investors could only agree that nine were of common concern. It is for that reason that we look at the different needs of each of these sectors in the following sections of this report.

Questions:

5. Do you accept the suggestion that users of corporate information fall into three distinct groups, being professional providers of capital, independent shareholders and others?
6. Do you agree that it is likely that the information needs of these groups are likely to be different and that, therefore, disclosure that might be of importance to some will not be of importance to all of them?

Professional investment managers

It is generally the case that investment fund managers can obtain the information they need to analyse the financial affairs of the companies in which they have interests by making a direct request to the company for the data which concerns them. For that reason, this interest group do not necessarily require an IFRS to obtain information of the sort we suggest be disclosed in this report.

We are also aware of the following:

1. investment managers tend to be interested in the global financial performance of a company, and pay less attention to the detail of national operations;
2. tax and revenue payments to governments have in general been an area in which analysts and other investment professionals have shown little interest;
3. after-tax cash flows are their greatest concern.

For these reasons we expect fewer of the indicators that we believe might of overall concern to users of financial statements to be of interest to this group. However, we do believe that disclosure of the information we suggest will influence the way in which analysts might look at companies. This is because:

1. Taxation issues in general are of increasing concern within the corporate responsibility agenda and as such many of the issues we highlight for disclosure in this report may be of future concern to analysts when they have to date been considered unimportant;
2. Many investment managers have committed themselves to support the EITI process and believe it is of value in reducing country-based risk for the companies with which they are concerned. The information we suggest be disclosed is beneficial to the monitoring of the EITI process and as such is valuable in reducing that risk, even if indirectly. That, we believe, gives reason for investment managers to support this disclosure even if it is not of any direct use to them;
3. Some of the data on performance that we suggest be disclosed might be of direct benefit, even if not all is. For that reason we are keen to receive feedback from investment managers on what data they believe might help them in assessing the performance of companies in the upstream EI.

[1] "Digging Deeper: Managing Value and Reporting in the Mining Industry" PricewaterhouseCoopers 2003

4. Some investment managers, e.g. those in the socially responsible investment sector, look for reasons to disengage with companies. When doing so they apply different criteria for assessment to those used by analysts in general. We believe that much of the information we suggest be disclosed might be of particular use to this sector and would appreciate their comments on whether this is the case, or not.

Questions:

7. Do you accept that professional investment managers are less interested than other groups in the national analysis of corporate performance?
8. Do you think that professional investment managers need an IFRS to obtain the information they require to assess the performance of a company?
9. Do you agree that professional fund managers who support the EITI process are likely to welcome the disclosures suggested in this report for that reason?
10. Do you agree that the publication of the data suggested in this report might encourage analysis of the issues to which it refers even if that analysis is not undertaken now due to the absence of such data?
11. Do you agree that the information we suggest be disclosed may be of more use to professional fund managers in the socially responsible investment sector than to mainstream corporate analysts?

Other shareholders and providers of capital

The annual audited financial statements of a company are of significantly more importance to those shareholders and providers of capital who are not represented by professional investment managers than for those who are. The reason is simple: this group of investors do not have access to the data that companies are willing to supply to investment analysts and other investment professionals. One reason why we believe that the information we suggest in this report should be covered by an IFRS for the upstream EI is that this would create a more level playing field between these groups of investors, and this might be of particular benefit to those in developing countries who hold stakes in these companies for the specific reason that they are of significance to their own economies.

We believe that these providers of capital to a company want information that will let them decide if they want to engage with it. Put simply, they need to decide if they wish to hold shares in it, or not. Most published financial data is historic. It does, as a result, have inherent limitations when used for this purpose. What the decision maker wants therefore is data that provides assurance that:

- the business has been well managed (the profit and loss account);
- the business has met its obligations when they fall due (the cash flow statement);
- the business has wisely invested the resources entrusted to its care (the balance sheet);
- these situations are likely to persist (the Operating and Financial Review and other published data).

The last point is in many ways the most important. It is now well known that past results are not necessarily a certain indicator of future performance. In addition, companies are not valued on the basis of what they have done, but on the expectation of what they might do. As such, when a person decides to be engaged in the capital of a company they do so either because:

- they want a future income stream from it, or
- they hope others will believe the value of that income stream is rising over time and will, therefore purchase their investment from them at some time in the future for more than they paid for it.

In our opinion it is precisely because individual investors want to assess the likely value of a future income stream that those who wish to acquire shares or other securities in an upstream EI company need to know about the following on a country-by-country basis:

- trading performance;
- taxation;

- engagement with host governments;
- reserves.

The reason is that in each of these areas the company is exposed to risk. That risk is different in each country in which the TNC operates. The assessment of risk is critical to the assessment of future investment performance. Therefore, information that makes it easier to assess the risk a company faces, improves the well-being of the independent provider of capital to a company because it gives them more information on which to base their decision as to whether to engage or not, and so reduces their risk and increases their likely rate of return from their investment. As such this information has high value in any decision making process.

The particular risks that require assessment include:

1. where, and through what entities, earnings are being made;
2. how much of the trade in any country is dependent upon the group, and what proportion is with third parties;
3. how likely it is that the income stream from a country will continue given the political risks peculiar to that territory;
4. whether tax and dues are being paid including an assessment of:
   a. if they are not being paid why that is so, and
   b. how stable that situation is likely to be in the longer term;
5. where reserves are and what probability there is that they will be accessed at reasonable cost, and with what certainty, given the political environment of the territory in which they are located;
6. what reputational risk the company faces from trading in the territories in which it is engaged;
7. how likely that reputational risk is given the performance profile that the other data disclosed shows for that territory.

All of these risks need to be appraised with regard to their possible impact on the future cash flows from which any rewards to the provider of capital might be paid. Without this information being provided we believe, given that this information will be known to the company and its professional investment advisers for the reasons we have noted above, that:

- those individuals who invest in the company may face an unfair disadvantage when compared to those who have access to data that might mitigate the individual investor's risk;
- the company is itself put at risk by not revealing significant information in its own possession about its current operations, thereby creating liability risk in the event of anything going wrong;
- appropriate standards of governance might not be encouraged.

In addition, we believe that any voluntary disclosure of this information creates the risk of producing an "unlevel playing field" in data supply, which could be manipulated for the advantage, and possible disadvantage, of those choosing to make such voluntary disclosure, e.g. under the GRI. As such, this basis of disclosure is untenable in the long term.

The result will be that for all these reasons the degree of risk that individual investors who rely upon the financial statements of upstream EI companies might face will increase and the outcome will be that:

- market valuations might be distorted;
- the cost of capital for all participants in the sector will be increased;
- markets will operate less efficiently than they should.

All of these problems could be overcome if an IFRS required disclosure of this information by all upstream operators in the EI to all their shareholders. A level playing field in data supply would be created as a result, risks could be better appraised and the market could allocate resources more efficiently to ensure effective management of resources in this sector for the benefit of the providers of capital.

Questions:

12. Do you agree with our broad analysis of the information needs of independent providers of capital?
13. Do you agree with our suggestion that segmental information by country will reduce the risk that independent providers of capital face in the upstream EI?
14. Do you think that our analysis of the country based risks in the upstream EI is broadly correct?
15. Do you agree that voluntary disclosure cannot mitigate these risks?
16. Do you agree that companies might face reduced risk if required to report on these issues?

Other stakeholders

Other users of the financial statements frequently have more complicated relationships with upstream EI companies than do the providers of their capital, largely because their relationships with it are usually of much longer duration and are much harder to terminate or avoid. Such stakeholders include:

- company management;
- company employees;
- company suppliers;
- governments;
- regulatory agencies;
- civil society of the territories in which the entity operates.

For these groups the decisions they wish to take are various and range over the following issues (considering just one for each group):

a. What is the local performance of the entity?
b. How secure is an employment?
c. Will I be paid?
d. What taxes are due?
e. Is the law being complied with?
f. What externalities is this company imposing on society?

Of course, the list could be extended considerably. But what characterises each of these issues is that many are more complicated than the decision about whether to own part of the capital of the company. The reason is straightforward. Capital markets are fairly efficient. As a result, once a decision to engage or disengage in the capital of the company is made then it can be implemented almost immediately, and be reversed almost as quickly. That is not, in varying degrees, true for these other participants. It is this fact that makes us look at the interests of these groups separately from the providers of capital.

These stakeholders will probably have one of the following characteristics:

1. a long term commitment to the sector from which they cannot easily disengage;
2. close physical proximity to it;
3. a responsibility for some aspect of its performance;
4. a dependence upon the sector for the achievement of their own goals.

As a result they will want to know that resources in the sector are being managed as effectively as possible. This will mean that they will probably want to know:

1. who is engaged in the sector, and what resources they have to back them;
2. how well local companies are doing;
3. how dependent local trade is on relationships with external owners;

4. whether taxes and other income streams are being paid as required to their governments;
5. if compliance with local regulation is taking place;
6. whether corruption might be taking place;
7. how national reserves or natural diminishing resources are being managed.

This list happens to also show that the coincidence in their needs and those of the investors (and in particular the independent investors) in this sector are striking. In most cases the overlap is extensive. They might use the information for different reasons, but the information they need is often very similar.

In both cases it is also true that the key difference between the required data and that currently available is that it is specific to a country of operation. It is already possible to assess the global risks upstream EI operators face. That is, and will remain, an important issue, especially for investment professionals. But as is clear from the analysis in this report, that is not enough. Only segmental data by country can provide the information really needed by a wide range of stakeholders, including many providers of capital, to make effective decisions.

It is stressed that we see this data is benefiting all these groups. That said, whilst this information is important for decision making by the providers of capital, its significance for the other groups to whom we refer is almost certainly higher. For them this data is critical economic information that enhances the chance that effective decisions can be made about their own future well being and that of the communities in which they live, their countries, and the companies that it wishes to engage with. If information is the life blood of effective markets then information of the type outlined here is vital if the upstream EI is to effectively engage with the communities in which it operates.

For that reason the information we suggest be published for each country must be readily available within each country in which an upstream EI company operates and locally within it. As such we believe that any company subject to an IFRS for the upstream EI should be required to publish its segmental data for every country in which it operates on its local website and in widely available printed publications in that territory and in all major local languages. In that way all local stakeholders will obtain access to information that they need to assess the operation of an entity in the upstream EI within their country. This is the only way in which it can be ensured that this data will be available to those who really need it.

Local users of upstream EI data

1. Central government
2. Local government
3. Government agencies, e.g. state oil companies
4. Employees
5. Local contractors
6. Civil society, e.g. those concerned with:
    - Accountability
    - Corruption
    - The environment
    - Long-term economic development
7. Those engaged in the EITI process and who comment upon it.

Of these groups only the first three are likely to have the resources to make any representation of any sort when an IFRS for the upstream EI is next discussed by the IASB. The organisations sponsoring this report have done so, in part, because they wish to represent the interests of those other interest groups at that time.

Questions:

17. Do you accept that the providers of capital might have a shorter term relationship with companies operating in the upstream EI than do other stakeholder groups?
18. Do you agree that the issues on which the stakeholders of a corporation who do not provide it with its capital are ones of vital concern to the operation of effective local markets?
19. Do you believe we have identified the right local interest groups with valid concerns about an IFRS for the upstream EI?
20. Do you agree that the information these groups require should be published locally?
21. Do you believe that these groups will require representation in the decision making process if an effective IFRS for the upstream EI is to be introduced?

Why this is particularly an upstream EI issue

Risk

There are a number of particular reasons why this is issue of country-by-country reporting is of special concern within the upstream EI. These include:

1. the resources which the EI uses are, by definition, immobile. As such geography is substantially more important within it than it is for many other sectors;
2. the EI dominates the external trade of many of the countries in which upstream resources are located;
3. the upstream EI is largely owned by companies not resident in the countries in which the industry operates.

For these reasons:

1. political risk of instability in the upstream EI sector is high;
2. companies face high potential reputational risk of association with governments of territories in which they have major operations;
3. the governments in question face significant risk from exposure to any one corporate entity if it is over represented in its territory;
4. many involved in civil society in the upstream territories are very dependent upon a limited range of employment and contracting options because of the dominance of a few companies in the upstream EI in their territory and therefore have above average interest in the well being of those companies;
5. the close association between the EI and its host governments inevitably requires corporations engaged in the industry to be politically aware, especially given the problems that many such countries have faced precisely because of their involvement in this industry.

For all these reasons it is vital that an understanding of the trade of upstream EI companies be available at a national level if what is called the "resource curse" is to be tackled. For that reason we think it is essential that data be published by all companies in the EI on a country-by-country basis, whether or not other segmental reporting is offered, or not. We do however stress that in the case of a conglomerate entity undertaking activity in both the upstream EI and other industry areas then the disclosure should be limited to the upstream EI and those transactions related directly to it, e.g. those within the supply chain prior to processing taking place, the provisions of management services to the upstream EI business and those finance transactions related to the upstream EI. An IFRS for the upstream EI should not put a company operating in that sector at a competitive disadvantage in other areas of its operations.

Questions:

22. Do you agree with the particular categories of risk that we have identified in the upstream EI?
23. Do you agree with our suggestions as to the consequences of these risks?
24. Do you think that these risks are peculiar to the upstream EI?
25. Do you think that these risks justify an IFRS for the upstream EI?
26. Do you agree that disclosure in a company operating in the upstream EI and other sectors should be restricted to its upstream activities?
27. Do you think that an IFRS for the EI should be extended to renewable resources such as fishing and logging?

Accounting standards

There is another reason why this is particularly an EI issue. EI activities are not well covered by many IFRSs and are in fact exempted from some. Instead they are still covered by a host of different accounting standards in different territories that currently mean, as most commentators agree, that there is no common basis for accounting in this sector.

We share the view of the IASB expressed in ED6 on Exploration for and Evaluation of Mineral Resources that "accounting practices … are diverse and differ not only between sectors of the extractive industries but also from the requirements in IFRSs for activities that may be thought to be similar and related." We believe that these inconsistencies in EI accounting can be exploited to:

- seek commercial advantage;
- to prevent disclosure of important data;
- to provide reason for non disclosure of data needed to appraise the performance of a reporting entity;
- present differing and non comparable data from that issued by others in the industry with impunity.

For these reasons we think that the comparability that an IFRS would create is essential to reliable reporting in this sector.

Questions:

28. Do you agree that an IFRS for the upstream IFRS is needed to create consistent reporting standards for this sector?
29. Do you agree that such an IFRS would create an important "level playing field" in the provision of data in this sector?

What should be reported?

We believe that the following should be reported by country:

1. turnover in total;
2. third party turnover;
3. production costs;
4. development costs if not capitalised;
5. interest paid;
6. profit before tax;
7. tax;
8. the total liability due to each of central and local government and their agencies for tax and other benefit streams (as detailed further below) as a result of the extraction of resources as reported in the profit and loss account for a period;

9. the actual payments made to each of central and local government and their agencies for tax and other benefit streams as a result of the extraction of resources as reported in the cash flow for a period;
10. liabilities owing to each of central and local government and their agencies for tax and other benefit streams as a result of the extraction of resources at the beginning and end of each period as shown on the balance sheet at each such date;
11. deferred taxation liabilities for the country at the start and close of the period and movements therein during the period, with explanatory notes;
12. production volumes by key products and by key properties;
13. reserves data (as detailed further below) by key products and by key properties;
14. capital expenditure incurred;
15. gross and net assets employed;
16. the number of employees engaged and their gross remuneration;
17. the names of subsidiaries working within the territory;
18. the key properties within the territory and for each a summary of the contract regime in use and details of any partners and joint venturers;
19. a statement of local policy on:
    a. corruption;
    b. whistle blowing;
    c. the application of these policies to the company's agents and contractors;
    d. disclosure of these issues if identified;
20. comparative data where appropriate in each case.

Questions:

30. Do you agree that disclosure should be made of the items that we suggest should be reported on a country-by-country basis?
31. If you do not agree can you state which numbered items should not be disclosed, and why?

Why two figures for turnover are important

It is unusual for data on internal trading to be supplied in consolidated accounts. Despite this, we believe it important that if country-by-country data on upstream EI activities is to be reported, two figures for turnover should be provided. The first is that for total local turnover, i.e. sales made within and from the country in total. The second is that for third party turnover. Comparison of the two will, of course, mean that inter-group turnover data is available by deduction. The reasons for making this suggestion are:

1. it is not possible to appraise the importance of an entity within a country unless its total sales are known;
2. nor is it possible to appraise other key data, such as cost of sales and tax paid unless the true scale of operations is known;
3. data on reserves usage cannot be assessed unless total sales to all parties are known;
4. inter-group sales are eliminated on consolidation of a set of financial statements and therefore only third party sales are declared but third party sales data for each country within a group is important for two reasons:
    a. to show where they take place;
    b. to show the dependence upon the group of activity within any territory. If third party sales are small dependence will be high and substantial external risk will exist for those with local concern whilst significant supply chain risk will exist for those looking from an international perspective.

Questions:

32. Do you agree that disclosure of turnover at these two levels is important?

Our concern in all the requests we make is with risk. The reduction of risk requires the identification of its source. It is for that reason that we believe that the following should be disclosed for all territories in which the company has operations:

- the names of all subsidiaries operating in all territories;
- the names of all joint venture parties, and
- the identities of all key properties.

This will allow those who engage with it to undertake an assessment of the risks that these expose the company to. We think that this applies equally to those who supply capital and those with other interest in its activities.

Questions:

33. Do you agree that disclosure of the names of all subsidiaries operating within a territory is vital if the upstream EI is to be both identifiable and accountable for its actions?

Why benefit streams paid to governments and their agents are important

The benefits payable to each of central and local government and their agencies that should be disclosed are:

1. profit based taxes;
2. production entitlements;
3. royalties;
4. signature, production and discovery bonuses;
5. licence fees, rentals, entry fees and other payments for licences and concessions;
6. dividends paid to governments and their agencies;
7. payments to state security forces for the provision of protection services;
8. other payments to governments, with such items being separately identified if material to an understanding of the local economic situation.

It would be insufficient that these items be reported in combination. This is because it is vital that each level of government and each state agency or company be held accountable for the funds paid to it. As such, disclosure of the payments due and made to each organisation is essential.

Questions:

34. Do you agree that disclosure should be made of the benefit streams that we have identified?
35. Do you agree that disclosure should be made at the level of central and local government and that in addition payments due to state agencies should be disclosed?

The importance of taxation

Tax is an issue of concern to all users of financial statements. It therefore needs to be shown separately in any disclosure of benefit streams paid. Tax data is of significance to users of accounts because:

1. it is a distribution out of profit which reduces the funds available to shareholders. Its management is, therefore, an issue of concern to providers of capital to the company;
2. there is now an increasing awareness that excessive management of tax liabilities through aggressive tax avoidance techniques can expose a company to risk from taxation authorities. There is now considerable reputational benefit from avoiding such challenges. Too low a tax

charge can therefore be seen as imposing risk. The techniques involved in the EI to reduce taxation charges include:

a. transfer pricing;
b. thin capitalisation;
c. manipulation of profit sharing agreements;
d. offshore corporate structuring;
e. mistiming of revenue recognition;
f. royalty, licence and copyright payments to offshore special purpose vehicles.

Given that relationships with governments are vital in the EI it is also necessary to understand tax paid data on a country-by-country basis to ensure that there is no implicit risk inherent in this area which could jeopardise future cash flows. Such risk could arise in the following ways:

- additional taxes, interest and penalties might be due if it found that tax laws have not been complied with and tax has been underpaid;
- relationships with governments could be damaged if excessive tax planning is taking place and those governments perceive they are not obtaining the benefit they expect from the activities being undertaken within their territory. This could prejudice the grant of future licences.

In addition, recent major corporate failures have been closely associated with companies undertaking considerable tax planning through offshore entities. In themselves these structures appear to create risk within a corporation by reducing its internal transparency. Anyone wishing to invest in the upstream EI will want to know that what is, inevitably, an international operation has clear lines of corporate communication. As such some knowledge of where the entity undertakes its trade and how that is structured for tax will be of substantial use to all users of the financial statements when assessing the risk they face. The disclosures suggested in this report will go some way to meeting this information need.

Questions:

36. Do you agree that companies in the upstream EI face material risks with regard to their taxation liabilities?
37. Do you agree that the recommended disclosure on taxation will mitigate that risk by reason of providing information to enable its assessment?

The relevance of other payments

Details of other payments made are also of significance to investors. Anyone wishing to assess the risk a company faces will want to know that it has good and stable trading relationships with those who grant its licence to operate. In the case of the upstream EI that means that the company has to keep good relationships with the countries who sanction its operations. A steady and predictable flow of fees paid is indication of that relationship being in good health.

The same data can be used by those outside the company in civil society who wish to monitor the contribution the company makes both locally and internationally as a corporate citizen. Many of these groups will wish to monitor this data as part of the EITI process. Its disclosure for this purpose is vital in ensuring that the upstream EI is free from corruption. The use that these two groups make of this data might be different but the benefit is real in both cases.

In consequence it is vital to both groups that the information supplied is credible. For the user of the financial statements this means that the data has to reconcile with other information within the accounts themselves, and be comprehensive in scope. So (and for example):

- tax recorded as being due has to accord with the information in the profit and loss account;
- tax paid (a key figure for civil society in assessing what governments do with the cash they receive) has to agree with the cash flow statement, and

- liabilities have to agree with the notes to the accounts.

In this way real assurance is offered. This has not been the case for much data that has been voluntarily disclosed to date. If such assurance is available decisions can be based on this data, which is, in essence, what financial reporting is about.

Questions:

38. Do you agree that disclosure of non taxation benefit payments to central and local government and their agencies is vital for the proper economic assessment of the upstream EI?
39. Do you believe that such disclosures will encourage good governance in the upstream EI?
40. Do you agree that such disclosures will reduce the risk of corruption in the upstream EI?

The reporting of reserves

The importance of reserve accounting has achieved a status since 2000 which few would have imagined possible at that time. The problems in reserves reporting that Shell has faced have assured that this will remain the case.

We are aware that much of the discussion on an IFRS for the upstream EI is currently focussed on the question of reserves and their valuation. We recognise that this is important within the IFRS framework. We also note that this is, inevitably, a complex issue. For precisely that reason we believe that there will be a critical need to provide alternative, simpler indicators on reserves that might be readily comprehended by those without extensive financial training. This might be the majority of those in the investor and stakeholder communities. For that reason we take a relatively straightforward position on reserves, and one which we suspect many companies will find quite easy to meet. The issues that relate to reserves that we believe are of most concern to the users of the financial statements of an upstream EI entity, and in particular at a local level, are:

1. what are they?
2. where are they?
3. how much was it believed could be accessed at the start of the period?
4. how much has been accessed in the period?
5. how many have been discovered in the period?
6. have any been lost for any reasons, e.g. due to reassessment during the period?
7. how much is left that can be accessed at the end of the period?
8. what has been paid for their use (which, of course, links this issue to the previous section).

In addition, an indication of value is needed. We suggest that an indication of the worth of accessible reserves at current market price be given at the end of each period for each category of reserve, by country, and believe that for many stakeholders for whom we have concern this information would be sufficient for their needs. It is stressed, however, that country-by-country data is as important here for all the reasons related to risk we have already noted and:

1. as an indicator of the sustainability of the company;
2. as an indictor of the sustainability of an economy.

For these reasons investors and others need this data to prepare their own estimates of future value of such reserves based upon their own risk weighting based on where such resources are. Only country-by-country data will allow this process to take place.

Questions:

41. Do you agree that disclosure of reserves by territory is essential for a proper appraisal of risk within the upstream EI?
42. Do you agree that in addition to the types of valuation likely to be required by the IFRS framework there is a need for a simple indicator of reserves valuation available on a country-by-country basis as suggested here?
43. Do you agree that reserves data is the best indicator of sustainability available within the upstream EI?

What this data might look like

It is one thing to suggest data be supplied, it has to be possible to do so if it is going to be useful for the user of a set of financial statements.

We are asking for an extension of financial reporting. All additional information involves some cost. However, we believe that:

1. we have demonstrated that all the information we are requesting is likely to already be available to the companies concerned;
2. there is benefit to the potential users of this information that is in our opinion bound to outweigh that cost.

Opinion offered to us with regard to the additional costs of the information we suggest be disclosed during the course of developing this report have varied from "fairly insignificant, and probably relating mainly to its audit" to "quite significant". For this reason we are keen to receive comments on the likely level of such costs, with justification being given so that a reasoned opinion can be formed. We currently are inclined to the view of those who suggest the costs will be small and are outweighed by the benefits of disclosure.

It is important to also see how this information could be supplied. Much is simply an extension of data that is already published. For example:

1. Reserves data is already published, albeit outside the audited accounts. The data provided is often in considerable detail, but not usually on a country-by-country basis. That requested could supplement or replace much of the information already supplied in a more systematic and comparable way, to the advantage of all concerned;
2. Data on material subsidiaries is already supplied. The additional information requested is simply an extension of that list;
3. Employee data is already published - all that is being asked for is an extension of the data;
4. Details of key properties, joint venture partners and other such information is commonly published now, even if not in the financial statements. Again, the formalisation of this data will be of benefit in an industry where disparity of accounting approaches is commonplace;
5. Issues relating to corruption are now commonly dealt with in CSR reports. Due to their significance in this sector we are simply asking that they be transferred to the financial statements;
6. Talisman Energy Inc, based in Canada, reports unaudited payments of benefits payments to the host countries of all its material operations;
7. Statoil of Norway is providing unaudited information on payments of sales and income taxes, plus information on the number of employees they have and their total employment costs and the cost of third party purchased goods and services in each material territory in which they operate;
8. The Extractive Industries Transparency Initiative is now operating in a number of pilot countries including, perhaps most notably, Nigeria. This will necessitate disclosure by corporations of the benefit streams paid to central and local government and their agencies in those territories. Unfortunately it does not follow that public disclosure will be made in all cases since EITI accounting standards are not consistent on this issue from country to country.

In these cases the suggestions made are not technically difficult, and all could be supplied with relative ease.

We accept that there are issues surrounding the supply of the other data we propose relating to performance, payments to governments and reserves. It has frequently been suggested that such information is:

1. not available;
2. not needed;
3. would not be used;
4. too commercially sensitive to publish:
5. too bulky to publish;
6. too sensitive to publish.

We have already dealt with the first three issues. Commercial sensitivity has undoubtedly been an impediment to progress in the development of acceptable financial reporting standards on the issues addressed by this report on a national basis. In principle, it is easy for any company to argue that if it were required by the standards of one country to publish data that its competitors in another country did not have to disclose then they would suffer a competitive disadvantage. We do not, however, accept that this is true of a requirement imposed by an IFRS. We accept that the IFRS we propose will still leave some differences in disclosure, but believe that these are not of major concern. This is because an IFRS for the upstream EI will apply to most quoted companies operating in this sector in the world. Those that it would not apply to fall into three groups. The first are US companies, the second are Japanese and Chinese companies and the third are private companies. With regard to the USA and Japan there are convergence programmes in place between their current accounting standards and the IFRS programme. We believe these could accommodate the disclosures requested here. With regard to China, it seems likely that much of its emerging international activity in this sector is likely to end up with its corporations trading their shares on Western stock markets and in that case IFRSs will probably eventually apply. In the case of private companies, they do not have a significant role to play in this sector and as such are not a significant issue of concern.

We do not accept that the information we are requesting is too bulky to publish. We believe that the information we have suggested could be supplied in three additional tables to be included in a set of financial statements, one of which might eliminate the need for existing reporting of reserves which often takes place in the OFR, so adding little overall to the reporting burden in this area, but with inter-company comparability being assured. These tables cover:

1. performance and tax payments;
2. product sales and benefits paid to governments
3. reserves.

Each of these is dealt with in turn:

Tax payment schedule

Country	Total sales	Third party sales	Pre tax Profit	Tax charge	Deferred tax charge	Tax due for the period	Tax due brought forward	Tax paid	Tax due carried forward
	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m
ABC	4500	150	500	150	30	120	90	95	115
ABC	*4100*	*120*	*450*	*126*	*24*	*102*	*114*	*117*	*99*
DEF	170	168	10	3	1	2	0	1	1
DEF	*160*	*159*	*-8*	*-2*	*-2*	*0*	*3*	*3*	*0*
Total	4670	318	510	153	31	122	90	96	116
Prior Year	*4260*	*279*	*442*	*124*	*22*	*102*	*117*	*120*	*99*

This schedule covers:

- sales and profit information;
- the tax charge, which can be compared with profit, as is vital;
- the tax charge, which is split between that due in cash and that part which is deferred which will not be paid for the time being;
- the reconciliation of the tax due with the tax liabilities recorded as due on the company's balance sheet and its cash flow statement. This is essential to ensure firstly that liabilities are actually being paid and secondly to show how much is paid locally as this is the only sum for which governments can be responsible to civil society;
- comparative data, which is shown in red, so allowing trends to be apparent and meeting the requirement of company law in this respect;
- the reconciliation of data to the profit and loss account, balance sheet and cash flow. These reconciliations provide vital assurance on the credibility of this data which is almost always missing from any equivalent reports in CSR statements.

Other benefits payment schedule

Country	Product Sold	Total production costs	Liability due at start of of period	Liabilities due for period	Production entitlements paid	Royalties paid	Bonuses and fees paid	Liability due at end of of period
	Volume	$'m	$'m	$'m	$'m	$'m	$'m	$'m
XYZ	146	870	127	270	104	129	45	119

In this schedule comparative data and totals have been excluded, but would have identical appearance to those on the previous schedule.

This table provides a further key performance indicator, being data on the volume of product sold. Of course, it may be necessary to disclose data on more than one product or conglomerate data in an equivalent unit measure to prevent confusion on this issue, but this is already accepted practice for some reserves information and as such does not break new accounting territory.

What this data does however allow is meaningful comparison of product-sold data with:

- sales data;
- production costs;
- liabilities due to government broken into its various likely components arising from those sales.

This is vital: since production costs will be equivalent to costs of sale it allows cost trends to be monitored, which is critical for those assessing future cash flows, as investors will. It also lets trends in obligations to society become apparent.

Finally, by reconciling liabilities due for the period with opening and closing balance sheet liabilities and actual payments made, data is provided to demonstrate that payments are being made on time, as is appropriate if risk is to be minimised and the cash flow of government is to be appropriately managed, as civil society would want.

Producton and Reserves

Country	Reserves at start of period	Product Extracted	Additions to reserves	Reserves reclassified	Reserves at close of period	Value of reserves at period end price	Exploration and development costs	Capital expenditure
	Volume	Volume	Volume	Volume	Volume	$'m	$'m	$'m
XYZ	1954	154	84	-45	2147	100,909	47	26

This final table completes the data required to fully understand a TNC's national operations in the upstream EI:

- data on volume production rather than sales is shown, since it is production rather than sales which affects reserves;
- additions and reclassification of reserves have to be shown, as both are key economic factors in the assessment of the future income stream of a company, and therefore provide key data to anyone seeking to decide whether to engage in its capital, or not. If reassessment happens too often or in regular significant amounts, for example, the quality of reserves estimates has to be in doubt;
- reserves data is valued on the simple basis suggested in this report, and
- expenditure incurred in the territory to explore new reserves and to exploit those available is shown since this has clear bearing on the likely future economic performance of the TNC in the territory and therefore is a measure of both commitment to the providers of capital and other stakeholders.

As with the previous table, comparative data is excluded from this example but would be shown in practice. Totals, however, may not always be appropriate for volume data in this table as reserves may relate to different resources and qualities.

Questions:

44. Do you agree that much of the information suggested in this report is already disclosed, at least in part, by some corporations?
45. Do you think that the costs likely to be incurred by corporations in providing the information suggested in this report will be modest? If not, can you say why not and if you work for such a corporation can you provide an estimate of that cost?
46. Do you believe that the benefits supplied by this information outweigh any likely costs?
47. Do you agree that the use of an IFRS overcomes the commercial objections to the disclosure of the information we suggest be published in this report?
48. Do you agree that it would be possible to publish information in the form described?

It could, of course, be argued that the information that we ask for could be provided in other ways. For example, CSR reports could include this data, or listing agreements could be amended to require its disclosure, as is the case to some degree in Canada.

We do not, of course, object to either requirement at this time, but do not think they provide a solution to this problem. The reasons are:

1. CSR reports are voluntary. To ensure comparability, compulsion is required for the data we ask for. It is too important for too many parties to be left to voluntary disclosure;
2. CSR reports are not always subject to audit. The data we request needs to have been verified if it is to be relied upon;
3. There are no standards yet fixed for CSR reporting. The GRI is useful, but has not taken issues as far as we would like, partly because of the constraints imposed upon it for reason of it requiring voluntary disclosure. Only compulsory disclosure can create the level playing field that will ensure that all companies can declare this information without harm to their commercial well-being;

4. Listing agreements are persuasive in applying pressure in the area, as Save the Children's Measuring Transparency project has shown. However, they are nationally based, and therefore fail to provide a universal approach, which is precisely what is needed. In addition, as Canada's example shows, they can provide too many loop-holes which can be exploited.

It has also been suggested during the course of development of this report that some of what we request is already covered by other IFRSs, e.g. IAS14 on segment reporting. We do not agree. Existing standards on segment reporting do not require disclosure of the data suggested in this report, and in particular do not require country-by-country analysis.

Questions:

49. Do you agree voluntary arrangements could not result in the disclosure now requested?
50. Do you agree that an IFRS is the best way to ensure consistency in disclosure in this area and is, for example, better than relying upon listing agreements?

Conclusions

In our opinion:

1. the data we have suggested be disclosed could be produced at relatively little cost because it should all already be available to the companies operating in this sector;
2. any remaining cost is more than outweighed by the benefit this data will supply to investors and other users of the financial data published by the reporting entity within the upstream EI;
3. disclosure of this information by all companies affected by IFRSs at the same time will mean that none suffer a competitive disadvantage by making this disclosure;
4. the enhanced credibility of data produced will provide commercial benefit to companies operating in this sector by providing clear comment on:
   - their commitment to transparency;
   - their acceptance of their obligations to the societies in which they operate;
   - their desire to avoid reputational risk;
   - their commitment to their investors, wherever they might be located.

For these reasons we believe that the inclusion of these disclosures in any future IFRS for the EI would represent a double benefit for the financial community and for broader society.

Appendix 1 - The use of this data

Data is of use if it either discloses valuable information by itself or if it can do so when combined with other data. The latter can be done either within a period or as trend data.

The data we suggest should be disclosed could, amongst much else, provide the following information by territory in the upstream EI.

Commercial performance

- Trends in turnover
- Trends in third party sales
- Average unit sales price (an average depending upon sales mix)
- Average costs per unit sold
- Pre-tax profit percentage
- Profit per unit sold
- Profit per employee
- Profit trends over time
- Sales per employee
- Labour costs per unit sold
- Labour costs as a percentage of turnover
- Average pay per employee
- Development costs incurred and their trend
- Interest costs in proportion to assets employed
- Rate of return on assets employed
- Trends in assets employed and their replacement

Taxation and other benefit streams

- Tax charge as a percentage of profit
- Tax actually paid as a percentage of profit
- The proportion of tax paid centrally and locally
- Outstanding tax liabilities and trends in them
- Reasons why tax payment is deferred
- Trends in the amount of deferred tax
- Other benefit streams paid by type in proportion to turnover and profit, and trends in them
- Benefit streams paid in proportion to production
- Benefit streams paid in proportion to reserve discovery, if appropriate
- Outstanding liabilities for benefit streams and trends in them
- The proportion of benefit stream payments not made directly to government

Reserves

- The actual amount of reserves available
- Rate of reserve depletion in proportion to revenues raised
- Rate of reserve depletion in proportion to benefit streams paid
- Likely years of remaining reserves at current net usage rate
- Trends in current market value of reserves
- Rate of reserve discovery in proportion to exploration expenditure incurred

Where there is a wide mix of products produced in a country, e.g. oil and gas or copper and silver, then inter-company comparison of this data may not be possible without disclosure of data by product type. However, even in these cases trend data is likely to be significant and product mix by territory is already frequently disclosed.

The above data is likely to be invaluable to:

- Market analysts
- Individual investors
- Individual companies seeking to enhance their economic performance
- Governments
- Energy and resource agencies
- Civil society as identified in this report

Appendix 2 – Extracting Transparency - Summary of questions

Each section of this report has given rise to a series of questions. These are summarised below. If you would like to offer us your opinion on these questions we would be pleased to hear from you.

Please send completed questionnaires by email to Hugo Sintes at Care International UK at sintes@careinternational.org, or by fax to him on +44 (0) 20 7934 9335 or by post to Hugo Sintes, CARE International UK, 10-13 Rushworth Street, London SE1 0RB, United Kingdom. A copy of the questions is available as a Word file download to assist those who wish to answer them from the Publish What You Pay website at http://www.publishwhatyoupay.org/ifrs.

Your name:	
Your organisation:	
Position:	
Contact details. Address and email are desirable:	

Please note, we regret that we will not be able to use replies that do not give either the name of the recipient and their organisation and position or the name of the recipient and contact details in the event of the respondent being an individual as it is important that we can validate the replies that we receive. We will not disclose these details to any third party outside the named sponsoring organisations identified within this report and their professional advisors engaged in connection with this project.

QUESTION	YES	NO
1. Do you accept that most TNCs do have a corporate structure that is country based? COMMENTS:		
2. Do you agree that country based information is therefore available to most TNCs? COMMENTS:		
3. Do you agree with the reasons we have given for TNCs adopting this corporate structure? COMMENTS:		
4. Do you agree that if TNCs adopt these structures to minimise risk then they should share those benefits with all their stakeholders? COMMENTS:		
5. Do you accept the suggestion that users of corporate information fall into three distinct groups, being professional providers of capital, independent shareholders and others? COMMENTS:		
6. Do you agree that it is likely that the information needs of these groups		

are likely to be different and that, therefore, disclosure that might be of importance to some will not be of importance to all of them? COMMENTS:		
7. Do you accept that professional investment managers are less interested than other groups in the national analysis of corporate performance? COMMENTS:		
8. Do you think that professional investment managers need an IFRS to obtain the information they require to assess the performance of a company? COMMENTS:		
9. Do you agree that professional fund managers who support the EITI process are likely to welcome the disclosures suggested in this report for that reason? COMMENTS:		
10. Do you agree that the publication of the data suggested in this report might encourage analysis of the issues to which it refers even if that analysis is not undertaken now due to the absence of such data? COMMENTS:		
11. Do you agree that the information we suggest be disclosed may be of more use to professional fund managers in the socially responsible investment sector than to mainstream corporate analysts? COMMENTS:		
12. Do you agree with our broad analysis of the information needs of independent providers of capital? COMMENTS:		
13. Do you agree with our suggestion that segmental information by country will reduce the risk that independent providers of capital face in the upstream EI? COMMENTS:		
14. Do you think that our analysis of the country based risks in the upstream EI is broadly correct? COMMENTS:		
15. Do you agree that voluntary disclosure cannot mitigate these risks? COMMENTS:		
16. Do you agree that companies might face reduced risk if required to report on these issues? COMMENTS:		

17. Do you accept that the providers of capital might have a shorter term relationship with companies operating in the upstream EI than do other stakeholder groups? COMMENTS:		
18. Do you agree that the issues on which the stakeholders of a corporation who do not provide it with its capital are ones of vital concern to the operation of effective local markets? COMMENTS:		
19. Do you believe we have identified the right local interest groups with valid concerns about an IFRS for the upstream EI? COMMENTS:		
20. Do you agree that the information these groups require should be published locally? COMMENTS:		
21. Do you believe that these groups will require representation in the decision making process if an effective IFRS for the upstream EI is to be introduced? COMMENTS:		
22. Do you agree with the particular categories of risk that we have identified in the upstream EI? COMMENTS:		
23. Do you agree with our suggestions as to the consequences of theses risks? COMMENTS:		
24. Do you think that these risks are peculiar to the upstream EI? COMMENTS:		
25. Do you think that these risks justify an IFRS for the upstream EI? COMMENTS:		
26. Do you agree that disclosure in a company operating in the upstream EI and other sectors should be restricted to its upstream activities? COMMENTS:		
27. Do you think that an IFRS for the EI should be extended to renewable resources such as fishing and logging? COMMENTS:		
28. Do you agree that an IFRS for the upstream IFRS is needed to create consistent reporting standards for this sector?		

COMMENTS:				
29. Do you agree that such an IFRS would create an important "level playing field" in the provision of data in this sector? COMMENTS:				
30. Do you agree that disclosure should be made of the items that we suggest should be reported on a country-by-country basis? COMMENTS:				
31. If you do not agree can you state which numbered items should not be disclosed, and why (using the space below or in a separate note). Please cross through the numbers of the items you do not wish to be disclosed, or delete them from this list if submitting the Word version of this questionnaire. COMMENTS:	1	2	3	4
	5	6	7	8
	9	10	11	12
	13	14	15	16
	17	18	19a	19b
	19c	19d	20	
32. Do you agree that disclosure of turnover at two levels is important? COMMENTS:				
33. Do you agree that disclosure of the names of all subsidiaries operating within a territory is vital if the upstream EI is to be both identifiable and accountable for its actions? COMMENTS:				
34. Do you agree that disclosure should be made of benefit streams that we have identified? COMMENTS:				
35. Do you agree that disclosure should be made at the level of central and local government and that in addition payments due to state agencies should be disclosed? COMMENTS:				
36. Do you agree that companies in the upstream EI face material risks with regard to their taxation liabilities? COMMENTS:				
37. Do you agree that the recommended disclosure on taxation will mitigate that risk by reason of providing information to enable its assessment? COMMENTS:				
38. Do you agree that disclosure of non taxation benefit payments to central and local government and their agencies is vital for the proper economic assessment of the upstream EI?				

COMMENTS:		
39. Do you believe that such disclosures will encourage good governance in the upstream EI? COMMENTS:		
40. Do you agree that such disclosures will reduce the risk of corruption in the upstream EI? COMMENTS:		
41. Do you agree that disclosure of reserves by territory is essential for a proper appraisal of risk within the upstream EI? COMMENTS:		
42. Do you agree that in addition to the types of valuation likely to be required by the IFRS framework, there is a need for a simple indicator of reserves valuation available on a country-by-country basis as suggested here? COMMENTS:		
43. Do you agree that reserves data is the best indicator of sustainability available within the upstream EI? COMMENTS:		
44. Do you agree that much of the information suggested in this report is already disclosed, at least in part, by some corporations? COMMENTS:		
45. Do you think that the costs likely to be incurred by corporations in providing the information suggested in this report will be modest? If not, can you say why not and if you work for such a corporation can you provide an estimate of that cost? COMMENTS:		
46. Do you believe that the benefits supplied by this information outweigh any likely costs? COMMENTS:		
47. Do you agree that the use of an IFRS overcomes the commercial objections to the disclosure of the information we suggest be published in this report? COMMENTS:		
48. Do you agree that it would be possible to publish information in the form described in this report? COMMENTS:		
49. Do you agree voluntary arrangements could not result in the disclosure		

now requested? COMMENTS:		
50. Do you agree that an IFRS is the best way to ensure consistency in disclosure in this area and is, for example, better than relying upon listing agreements? COMMENTS:		

Additional comments:

Additional comments (continued)

Extracting Transparency

The need for an International Financial Reporting Standard for the Extractive Industries

September 2005

Over the last five years there has been much debate about how to properly account for the Extractive Industries (oil, gas and mining). The International Accounting Standards Board has tackled the issue. So have many national accounting standards authorities. And the sector has been subject to greater scrutiny due to the launch of the "Publish What You Pay" campaign and the Extractive Industries Transparency Initiative (EITI).

Despite this, and the support of many within the industry and within the world's largest accounting firms for one set of accounting standards for this global sector, there has to date been little progress in this direction.

In this report we argue the case for an International Financial Reporting Standard (IFRS) for the upstream Extractive Industries. An IFRS is about mainstream financial reporting. The focus of mainstream financial reporting is on decision-making. As such, to suggest that something should be covered by an IFRS is to suggest it has use in the decision making process some or all users want to undertake based on the financial statements of a company.

We suggest that country-by-country reporting on commercial performance, taxes and other benefits paid to governments, and reserves is essential information for making useful decisions about companies engaged in the extractive sector. This information is vital to shareholders and other stakeholders, including governments and citizens who have an interest in this important industry. That is why we are engaged in this debate on an IFRS for the Extractive Industries and why we have published this report.

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