

The IASB and country-by-country reporting

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The IASB

- International Accounting Standards Board
- Responsible for International Financial Reporting Standards - which operate in more than 100 countries
- A private body
- Financed by the Big 4 accountancy firms and large multinational corporations (MNCs)
- Based in London
- Registered in Delaware - a secrecy jurisdiction

IASB and the Extractive Industries

- An ongoing saga - long overdue for resolution
- Most of the issues it addresses are on reserve accounting and accounting for exploration costs
- These need not concern us here
- Imposed on this are the demands of Publish What You Pay (PWYP) for country-by-country reporting (CBC)

The PWYP demands

- CBC for EI countries alone with each of the following disclosed for all countries with EI activity;
- Benefits paid to government in cash and kind
- Production revenues, external and intra-group
- Production and development costs
- Reserves volumes and values
- Production volumes
- Names of subsidiaries and main production facilities

Why demand this?

- To disclose information needed to hold governments to account for the revenue streams paid to them

AND

- To provide the minimum information necessary to ensure that those revenue streams are likely to be fairly stated
- The demands are not an option list
- They are for integrated and necessary accounting data

PWYP Purpose in making demands

- To minimise corruption
- To ensure resources are well managed
- To allow effective decision making on resource allocation within the EI and within each individual country that hosts the EI

The IASB response

- CBC for EI countries alone
 - *Case not proven - cost benefit analysis needed BUT the benefits PWYP consider arise from disclosure may not be taken into account when calculating benefits*
- Benefits paid to government in cash and kind
 - *Yes - but maybe not if paid in kind and not at all if not material*
- Production revenues, external and intra-group
 - *Yes - but only if material*
- Production and development costs
 - *No*
- Reserves volumes and values
 - *Yes*

The IASB response (Cont.)

- Production volumes
 - *Only by region*
- Names of subsidiaries and main production facilities
 - *They say this is already disclosed if material*

Problems with the IASB response

Four fundamental problems with the IASB response:

- Their refusal to consider the needs of civil society
- Failure to define materiality appropriately
- Technical incoherence of the response
- The voluntary opt out from disclosure built into the IASB proposal

IASB refusal to consider the needs of civil society

- IASB say accounts are only for "providers of capital"
- Civil society are not providers of capital, they say
- They therefore say the needs of civil society can only be met if their needs also meet the needs of providers of capital
- Providers of capital need information to assess future cash flow of the entity
- Civil society needs information to assess governance, country-by-country
- Not the same at all
- But the IASB say any benefits from enhanced governance of the EI cannot be considered in their appraisal of CBC
- This automatically means the cost / benefit analysis will find against CBC
- IASB must refine its criteria of who uses financial statements

Materiality

- IASB says materiality relates to the reporting company
- And that the entity itself can decide for itself what is material
- But Shell has PROFITS bigger than the GDP of more than 25 EI countries
- This means payments in any of these countries will never be material
- The result is disclosure will be very, very incomplete
- Many of the worst offending countries with the highest need for disclosure will be missed out
- This means materiality must be assessed at the country level - if the MNC is there it must report

Technical incoherence

- The IASB has refused to recognise the PWYP request as a demand for coherent accounting data
- The result is the have “pick and mixed” the demands meaning that the resulting data will not be coherent
- The IASB also that companies may not have the necessary information to disclose - but if that's the case companies do not have the information they're required to have by law
- The IASB are sympathetic to the suggestion that the data has high risk attached to it - so would be hard to audit. But surely that's exactly why it should be audited?
- These responses do not suggest objectivity in assessing representations made
- The IASB must ensure coherent accounting data is supplied and audited

The voluntary opt out from disclosure

- The IASB say that any company can decide not to disclose even if a standard is introduced - they just have to say why
- This can be something as simple as “its not in our commercial interest to do so”
- The result is the proposal is entirely voluntary and entirely meaningless as a result
- And it also means that the most egregious states can apply pressure to ensure no data will be disclosed about them – moral hazard is built in
- Compulsion is essential

Conclusions

- The IASB are not fulfilling their public duty to require preparation of accounts for the public benefit
- The IASB are not fulfilling their duty to make special consideration of the needs of developing countries
- The IASB are imposing artificial criteria to ensure civil societies needs for accounting information are not properly appraised or met
- The IASB have offered a technically inadequate response to the proposals made
- They have ensured that even if the proposal was adopted it would be entirely voluntary disclosure - which negates the whole purpose
- Demand must be made that the IASB change its approach to this issue, and that of the use of accounts for social purposes by civil society and others who do not provide capital to companies