Funding the Future

Standard Setters Risk Putting Oil, Gas and Mining Compa...

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Standard Setters Risk Putting Oil, Gas and Mining Companies Before Investors and Citizens In Steps Toward New Rules | PWYP.

The International Accounting Standards Board (IASB) took important steps today to improve reporting and disclosure by the oil, gas and mining industries. But extractive industry experts said the proposals have been weakened by pressure from companies and have yet to clearly recommend reporting of the full information that investors and citizens need.

In its formal “Discussion Paper” for a new extractive activities standard, the world’s leading rule-setter for accounting explores several new reporting requirements for reserves, production and costs. The Discussion Paper, which represents an important step in the IASB’s standard-change process, includes the proposal that key company financial information be presented on a country-by-country basis for greater transparency, rather than the current practice of aggregating information by region or business activity.

However, the IASB’s project team shies away from clearly recommending that company payments be reported in this country-specific manner, stopping short of a change that investors and citizens need to successfully assess risk and press for responsible governance, which companies are resisting.

Whilst the IASB’s project team claims that such improvements require greater study to assess their potential costs, country-by-country reporting is gaining increasing acceptance from the groups who see the benefits, including the investor community, who need payment breakdowns to judge company risk profiles and exposure in particular countries.

Bennett Freeman of institutional investor Calvert Investments said: “Calvert has strongly endorsed country-by-country reporting in our talks with the IASB. Not only is it necessary for effective project and company evaluation in this high-risk industry, this level of disclosure will also encourage companies to work for long-term and sustainable

value creation."

"Any claim that real country-by-country reporting costs too much is penny wise and pound foolish," said Vanessa Herringshaw of the Revenue Watch Institute. "There is a price to upgrading any reporting system, but investors face far greater costs when they lack the tools to assess risk in the volatile extractive sector. If the financial crisis has taught us anything, it is that corporate transparency and accountability are vital to stability."

Several industry observers estimate that the cost of country-by-country reporting would actually be tiny. "Companies already have this information, since they need it for national tax reporting," said Richard Murphy of Tax Research LLP. "There will be some additional audit costs but these will be miniscule compared to the profits these companies are making and the benefits this disclosure will provide to investors, regulators and stakeholders, all of whom will better understand the businesses they are dealing with."

Murphy added that tax authorities also need country-specific tax and payments information to judge companies' global profile and ensure that they are paying their dues at the right level and in the right place. "The burden of proof ought to be on companies to show that their resistance to the proposal is not due primarily to reluctance in exposing their own tax profiles," he said.

"If the IASB does not follow through, the greatest cost will ultimately be paid by citizens," said Radhika Sarin of Publish What You Pay. "Oil, gas and mining resources yield huge profits, but the vast majority of people in resource rich countries are not receiving the benefits. They need information about these revenues to hold their governments accountable. The IASB's stated mandate is to generate standards â€šÃ„Ã²in the public interest' that serve both investors and â€šÃ„Ã²other users.' The board should not settle for fulfilling that mandate on a selective basis by valuing company anxieties over the security of investors, or the interests of ordinary people in poor countries with little voice in the boardrooms of London."

The Discussion Paper will now be subject to a four-month hearing period where it is possible for stakeholders to formally comment. The IASB will use this input to make a final decision on whether to put extractives on its formal standard-setting agenda and to finalize the content of a new accounting standard. If the IASB receives sufficient endorsements of the approach, this could still include country-specific reporting of payments.

Revenue Watch and other members of the Publish What You Pay global coalition will continue to work with allies in the investor community, the Tax Justice Network, as well as CAFOD and other members of faith-based organisations to ensure the IASB develops meaningful requirements for country-by-country reporting that prioritise the great benefits to investors and citizens over the relatively small costs to oil, gas and mining

companies.

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Where to find the Discussion Paper on the IASB website:

http://www.iasb.org/Current+Projects/IASB+Projects/Extractive+Activities/Discussion+Paper/Discussion+Paper+and+Comment+Letters.htm