



The World Bank

CHARLES A. MCDONOUGH

Vice President and Controller

June 28, 2010

July 30, 2010

International Accounting Standards Board
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

The World Bank is pleased to provide comments on the discussion paper DP/2010/1 *Extractive Industries*. We are glad to see the IASB's incorporation of a discussion of the Publish What You Pay Proposals (PWYP) and hope that this action will generate additional focus on the need for such disclosures.

We believe that this particular issue touches a key element of the IASCF Constitution, namely the duty to the public interest, with a goal of helping participants in the world's capital markets and other users make economic decisions. As we stated in our comment letter on *the Review of the Constitution: Identifying Issues for Part 2 of the Review*:

It is also important for the Trustees to demonstrate a visible commitment to ensuring that the views of all stakeholders in the work of the Board are thoroughly considered in the standards produced. In this regard, a narrow view of investors as the primary users of financial statements may not be sufficient to reflect the needs of a broad range of stakeholders which could extend from investors, to market counterparties, to prudential regulators, to governments.

Recognizing that the IASB Conceptual Framework emphasizes that capital providers (present and potential equity investors, lenders, and other creditors) are the primary user group for general purpose financial reporting, we remain convinced that this focus is compatible with PWYP and that the existence of ancillary benefits for other users, such as governments and citizens of resource rich countries, should not detract from the argument.

Given that that the only question posed regarding these proposals relates to the cost/benefit, we infer that: (a) the usefulness of this information to potential and current capital providers and (b) the consistency of the proposals with the objectives of financial reporting were well

established and accepted by the project team, and we agree. We note with regret, however, that the proposals of the project team fall short in their suggested requirements by leaving off the PWYP proposals on additional disclosures of payments to countries related to resource extraction. We advocate the inclusion in an IFRS of all the PWYP disclosure proposals on a country by country basis, including payments to governments, and we would argue that it is justifiable on cost/benefit grounds.

Meaningful Basis of Comparison

Requiring some country by country disclosures, but not all of the PWYP elements, does not provide users with a coherent perspective of the activity nor permit meaningful comparisons. In the extractive industry environment, the country is an important unit of account since that is a means of assessing exposure to some financial, reputational and political risks. As the discussion paper points out, country level data is meaningful due to the importance and prevalence of risks that are related to taxation, legal and regulatory frameworks, and sovereign risks. For example, without this information a capital provider lacks a consistent way to evaluate how tax and regulatory regimes impact production and revenues.

An example of where the proposed disclosures fall short: the team proposes that production costs be provided (“if material”) on a country by country basis, however, not requiring production revenue information on the same basis leaves users without useful margin information. While a commodity-level disaggregation is clearly useful, additional margin information by country would assist capital providers in evaluating and modeling the vulnerability of revenue and production streams to particular political and geographic risks, and the relative contributions to future cash flows of the operations in each country, which may vary based on royalty and taxation structures. Further, the general requirement proposed by the team to require country specific reserve quantities, but with only aggregated reserve values, is inconsistent – users polled supported disaggregation of such information. If reserve quantities, theoretically the unit of account for valuations, are available on a disaggregated basis, then valuation data on the same basis should be possible.

Materiality and Aggregation

Recognizing that one of the core debates of this proposal revolves around the application of materiality and aggregation principles, we would note that the discussion paper primarily discusses quantitative elements and gives short shrift to the important qualitative aspects of materiality that are particularly relevant in the environment in which the extractive industries operate. We believe that requiring country by country disclosures, that would be audited, is essential to providing financial statement users with qualitative information about a number of useful aspects of risk exposure for assets, cash flows, margin analysis by country, relative vulnerabilities and dependencies, obligations related to taxation and royalties, concentrations, and reputational and political risk. As the discussion paper notes, exposure to reputational risk is not necessarily related to the scale of operations in a given country. The disaggregated qualitative disclosure information will enhance the analysis of investors and enable the market to better evaluate the risk and reward profiles and dependencies of companies. Aggregated information of this type will have lower decision utility.

Cost of Compliance

As to the other costs of providing the country by country information, the availability of information will, in many cases, reflect the structure of the operations of many, if not most companies operating in an international environment. As such, it is reasonable to expect that data will exist regarding key issues (e.g. for taxation purposes) on a national basis. Furthermore, companies subject to anti-corruption legislation will already have such information in order to comply, which should reduce the incremental cost of producing this information for financial reporting purposes. We recognize that new disclosures can entail other additional costs for preparers (for example, audit costs) – recently, financial institutions experienced a similar imposition with regard to financial instruments, including derivatives. However, in that circumstance, the overarching benefits were deemed to outweigh the cost. Audited accounting information improves reliability and enhances the ability of shareholders to monitor the activities of the company. An instance, in which proposed IFRS requirements entail significant accounting systems and reporting process changes, is not unique, and as with prior cases, this can be dealt with through a generous period of implementation and preparation before effectiveness.

Others may argue that there could be a potential loss of competitive advantage compared with companies that do not have to apply IFRS. First, it is illogical to purport that IASB should mandate financial reporting standards that cater to what others, who don't apply them, do. Second, mandatory application through IFRS, though imperfect, will level the playing field better than voluntary regimes. Although not all countries use IFRS, more than 100 countries require or permit IFRS, or are seeking convergence. In this sector, listed companies and not private companies play the most significant role. Further, the existence of compliance with and a commitment to transparency on the part of reporting companies may be a decision useful input for capital providers who are assessing financial and nonfinancial factors.

In summary, as a participant in global capital markets, we believe that incorporation of all the country-by-country disclosure proposals of PWYP into a future IFRS are consistent with the IASCF Constitution and the Framework, serve the needs of financial statement users who are capital providers, and meet the cost/benefit test. Further, as a development organization we think the additional benefits for a broader set of stakeholders provide a two-fold opportunity for the Board and the Trustees – to serve other users making economic decisions and the public interest.

We appreciate the opportunity to provide you with our views and welcome further interactions on this topic.

Sincerely,

A handwritten signature in black ink, appearing to read "CMcDonough", with a long horizontal flourish extending to the right.

Chuck McDonough