

STAFF PAPER

September 2019

IASB Meeting

Project	Extractive Activities		
Paper topic	Publish What You Pay		
CONTACTS	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937
	Tim Craig	tcraig@ifrs.org	+44 (0) 20 7246 6921

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Objective

1. The purpose of this paper is to summarise:
 - (a) the considerations and feedback received on ‘Publish What You Pay’ in Chapter 6 of the 2010 *Extractive Activities Discussion Paper* (Discussion Paper); and
 - (b) developments to date on ‘Publish What You Pay’.
2. There are no questions for the Board in this Agenda Paper, but the staff would welcome any comments from Board members.

Overview

3. This paper is structured as follows:
 - (a) Summary (paragraph 4);
 - (b) Background (paragraphs 5–13);
 - (c) Recent developments (paragraphs 14–24);
 - (d) Appendix A—Publish What You Pay;
 - (e) Appendix B—Extracts from *October 2010 Agenda Paper 7A Comment letter summary*;

- (f) Appendix C—Extractive Industries Transparency Initiative.

Summary

4. The principles of Publish What You Pay (or the requirement to disclose payments made to governments) have begun to be introduced at a jurisdictional level (see paragraphs 14–22).

Background

5. In Chapter 6 of the Discussion Paper, the project team considered the disclosure proposals put forward by the Publish What You Pay (PWYP) coalition of non-governmental organisations (see Appendix A). The PWYP coalition seeks to improve the accountability of governments of resource-rich developing countries for the management of revenues received from mining or oil and gas entities. To achieve its objective, the PWYP coalition proposes that entities undertaking extractive activities should be required to disclose, in their financial reports, the following information on a country-by-country basis:
- (a) the payments made to governments (which could be in cash or in kind);
and
 - (b) other information, including reserve quantities, production quantities and production revenues and costs incurred in development and production.
6. The project team considered the proposals from the perspective of whether, and to what extent, capital providers (as primary users of financial reports) need this information in order to gain an adequate understanding of the future cash flows, and the risks to those cash flows, that may be generated by a mining or oil and gas entity. The project team did not reach a view on whether payments to governments should be disclosed, and if they are disclosed, if they should be disclosed on a country-by-country basis.

Question in the Discussion Paper

7. Question 10 of the Discussion Paper asked respondents the following:

Question 10 – Publish What You Pay disclosure proposals

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

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

Summary of feedback received on the Discussion Paper

8. The following is a summary of the comment letter analysis which was presented to the Board in October 2010¹. Extracts of the detailed comment letter analysis from October 2010 are located in Appendix B.

Scope of financial reporting

9. Comment letters indicated that there was general support for the objectives of PWYP. However, respondents thought the PWYP disclosures were not considered to be within the scope of financial reporting because:
- (a) the primary users of that information would be non-governmental organisations and other special interest groups; and
 - (b) meeting their information needs is a public policy matter rather than a financial reporting matter.
10. Many of these respondents regarded the disclosures to be within the scope of corporate social responsibility (CSR) reporting.

¹ See [October 2010 Agenda Paper 7A](#)

11. However, the supporters of PWYP disclosure proposals expressed concerns that the project team's assessment of the proposals was too narrow because it considered only the benefits to investors and lenders and did not also consider the substantial benefits that may be realised from improved governance and accountability.

Cost-benefit considerations

12. Respondents identified the following benefits to investors and lenders of the disclosure of payments made to governments:
- (a) an entity's payments to governments may be used to model and benchmark that entity's relative exposure to country-specific risks;
 - (b) information on the size and timing of payments may provide insight into whether and how these payments will influence development costs or operating cash flow; and
 - (c) investment risk and reputational risk assessments are more critical to entities that have assets and operations that either are concentrated in a small number of countries or are located in countries that rely heavily on extractive revenues.
13. However, respondents from industry noted that many entities currently disclose qualitative information in management commentary and other reports that can be used to make assessments of material investment and reputational risks. They queried whether the benefits of disclosing such payment information in the financial statements would exceed the costs of its preparation. In particular, respondents were concerned about:
- (a) existing accounting systems which may not be able to readily capture all of the payments made by the entity to governments. For example, the taxes and charges may be levied separately or included in the cost of goods sold;
 - (b) disclosing payments to governments on a country-by-country basis would result in the disclosure of excessively detailed information that may not be material to the entity (in terms of size or nature);

- (c) preparing and auditing this information would be costly, time consuming, and would therefore slow down the entire reporting process; and
- (d) disclosing disaggregated payment information could expose entities to the release of commercially sensitive data, which would ultimately be of detriment to investors.

Recent developments

- 14. Subsequent to the publication of the Discussion Paper, several jurisdictions have introduced legislation / regulation for the disclosure of payments to governments for entities within the extractives industry.
- 15. Those National Standard-setters whose staff helped to develop the Discussion Paper provided the following examples of jurisdictions which have introduced legislation / regulation for the disclosure of payments to governments.

European Union

- 16. In 2013 the European Union signed into law payment disclosure requirements for the extractives and forestry industries. These requirements form part of:
 - (a) Chapter 10—Report on payments to governments (EU Accounting Directive); and
 - (b) Article 6—Report on payments to governments (EU Transparency Directive).
- 17. The requirements specify that each year oil, gas, mining and logging companies should disclose the payments they make to governments on a country-by-country and project-by-project basis.
- 18. In addition to these requirements, Norway has implemented additional disclosure requirements. These regulations were initially implemented in 2009 and align with the Extractive Industries Transparency Initiative (see Appendix C).

Canada

19. The *Extractive Sector Transparency Measures Act* (ESTMA) was introduced in 2015 and establishes reporting and transparency obligations for the extractives sector.
20. In particular, ESTMA requires specific entities to disclose specified categories of payments made to governments in Canada or abroad that relate to the commercial development of oil, gas or minerals.
21. ESTMA also requires such disclosures to be subject to audit.

United States of America

22. The *Dodd Frank Wall Street Reform and Consumer Protection Act* (Act) in the US requires mining and oil and gas entities that are regulated by the US Securities Exchange Commission to publicly disclose, on a country-by-country basis, the payments they make to governments.

Other observations

23. Both the PWYP coalition and Extractive Industries Transparency Initiative (EITI) are still active and continue to campaign for increased transparency and reporting obligations relating to payments extractives entities make to host governments. In total, 52 countries are in various stages of implementing the EITI Standard and 54 countries are active members of the PWYP coalition.
24. Staff understand that Australia and South Africa have not introduced any disclosure requirements in relation to payments to governments for the extractives industry at this stage.

Appendix A—Publish What You Pay

- A1. Publish What You Pay (PWYP) is a global movement working to ensure that revenues from oil, gas and mining help improve people’s lives. They currently have more than 700 member organisations and 50 national coalitions and campaign for an open and accountable extractives sector.²
- A2. In Chapter 6 of the Discussion Paper, the project team explains that PWYP is a non-governmental coalition which aims to help citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the minerals and oil and gas industries. This requires reliable information about the revenues received by a government from these industries. To achieve this, PWYP proposes that entities undertaking extractives activities should be required to disclose, in the financial reports, the payments they make to each host government. These payments could be in cash or in kind and should be disclosed on a country-by-country basis.
- A3. PWYP also proposes that disclosures should be provided on a country-by-country basis for other types of information including minerals or oil and gas reserve quantities, production quantities, production revenues, and costs incurred in development and production. The objective of these disclosures is to provide information on the scale of the entity’s operations within individual countries. Citizens of resource-rich developing countries can then compare this information with the amounts an entity has paid to governments of those countries.

² See <https://www.pwyp.org/>

Appendix B—Extracts from *October 2010 Agenda Paper 7A Comment letter summary*

Scope of financial reporting

- B1. The comment letters indicated that there was general support for the objectives of PWYP. However, except for the non-governmental organizations (NGOs) and the investment funds, the PWYP disclosure proposals were not considered to be within the scope of financial reporting because:
- (a) the primary users of that information will be NGOs and other special interest groups; and
 - (b) meeting their information needs is a public policy matter rather than a financial reporting matter.
- B2. Many of those respondents regarded the disclosures to be within the scope of corporate social responsibility (CSR) reporting. Some respondents said that they currently disclose the payments they make to governments in their CSR reports.
- B3. In contrast, the supporters of the PWYP disclosure proposals noted that CSR reports do not have the same status as financial reports. Furthermore, they expressed concerns that the project team's assessment of the proposals was too narrow because it only considered the benefits to investors and lenders and did not also consider the substantial benefits that may be realised from improved governance and accountability in resource-rich developing countries. The PWYP supporters argued that these benefits should also be considered by the Board because the objectives of the IFRS Foundation, as specified in its Constitution, include:
- (a) developing accounting standards in the public interest, which in their view would be consistent with the objectives of PWYP; and
 - (b) helping other users (ie users other than participants in the world's capital markets) make economic decisions.
- B4. The staff notes that the IASB's objective to develop financial reporting standards 'in the public interest' is part of a broader requirement 'to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions'. In the *Conceptual Framework for Financial Reporting* (2010), the Board clarified that the objective of financial reporting is directed towards meeting the needs of investors and lenders and that information that meets their needs may also be useful to other users. Consequently, assessing the PWYP proposals from the perspective of the benefits they provide to other users would appear to go beyond that objective.

Cost/benefit considerations

B5. Commentators identified the following benefits to investors and lenders of the disclosure of payments made to governments:

- (a) An entity's payments to government may be used to model and benchmark that entity's relative exposure to country-specific risks, including:
 - (i) political risks such as production disruptions due to conflict, the expropriation of assets or changes in the tax or royalty regime; and
 - (ii) reputational risks, particularly if an entity's operations are located in countries that rely heavily on extractive revenues and there is a concern about whether the entity is 'paying a fair share' in return for extracting the minerals or oil and gas.
- (b) Information on the size and timing of payments, such as signature bonuses, may provide insight into whether and how these payments will influence development costs or operating cash flow.
- (c) Investment risk and reputational risk assessments are more critical to entities that have assets and operations that either are concentrated in a small number of countries or are located in countries that rely heavily on extractive revenues.

B6. In addition, some respondents explained that a requirement for entities to disclose payments to governments would have wider benefits for investors and lenders. For example, the aggregate amount of payments made to a government by various entities could be used to make assessments of systemic risks of investing and operating in those countries. For instance, as one respondent stated:

Investors generally also have a strong indirect interest in the general availability of such information to other stakeholders. Such transparency helps provide reassurance that the business climate in which extractive industries operate in a given country is not overly unattractive and reduces political and other related risks by discouraging illicit activity, limiting popular distrust and resentment related to extractive-related wealth, and ultimately curbing the risk of extractive contract rescissions, corruption and violent conflict. (CL#134)

B7. Respondents from industry commented that many entities currently disclose qualitative information in management commentary and other reports that can be used to make assessments of material investment and reputational risks. They queried whether the benefits of disclosing payment information would exceed the costs of its preparation. Some of the specific concerns raised by those respondents included:

- (a) Existing accounting systems may not be able to readily capture all of the payments made by the entity to governments. This is because:

- (i) Payments to governments can include many forms of taxes and charges. For example, the taxes and charges may be levied separately (eg corporate taxes and royalties) or included in the cost of goods and services (eg value-added taxes and customs duties). Some may be recurring taxes and charges and others may only be incurred once (eg a signature bonus). Other taxes may be paid on the entity's behalf. For example, in some joint ventures, the operator pays tax to the government on behalf of all joint venture partners.
 - (ii) A payment to a government could include tax authorities and government agencies as well as government owned businesses. Particularly for government owned business, an entity may be unsure whether a payment it made was to a business that was government owned or whether the payment would be regarded as a reciprocal or non-reciprocal transaction.
- (b) The proposal to disclose payments made to governments on a country-by-country basis would result in the disclosure of excessively detailed information that may not be material to the entity (in terms of size or nature). Preparing and auditing this information would be costly, time consuming, and would therefore slow down the entire reporting process.
 - (c) The disclosure of disaggregated payment information could expose entities to the release of commercially sensitive data, which ultimately would be to the detriment of investors.
- B8. Some respondents indicated that they currently voluntarily disclosure tax payments on a country-by-country basis in CSR reports. They distinguished their CSR reporting from the PWYP proposals on the basis that the information they disclose is not subject to audit or required to be prepared and released to the public at the same time as the entity's annual financial statements. Furthermore, the entity identifies which payments to governments are included in the disclosure. As a consequence, the preparation and audit costs of this disclosure in a CSR report are less significant.
- B9. Several respondents also suggested that, if the Board considers this information to be within the scope of financial reporting, the PWYP disclosure proposals should apply to all industries because many of the same investment and reputational risks apply to industries other than minerals and oil and gas. Those respondents suggested that, if such a decision were made, the PYWP disclosure should be considered as a part of a separate project on disclosures.

Appendix C—Extractive Industries Transparency Initiative

- C1. The Extractive Industries Transparency Initiative (EITI) is the global standard to promote the open and accountable management of extractive resources and is currently implemented by 52 countries. The EITI Standard requires the disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public. By doing so, the EITI seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide the data to inform reforms for greater transparency and accountability in the extractives sector.³
- C2. However, not all countries have reached the stage of publishing reports. Some publish only aggregated company data, while other EITI countries publish company-by-company data. A large number of companies, non-governmental organisations, investors, industry associations and intergovernmental organisations (such as the World Bank and IMF) support the EITI (see Chapter 6 of the Discussion Paper).

³ See <https://eiti.org/>