



30 July 2010

Our ref: ICAEW Rep 72/10

Your ref: DP/2010/1

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir David

EXTRACTIVE ACTIVITIES

The ICAEW is pleased to respond to your request for comments on the Discussion Paper *Extractive Activities*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

IASB DISCUSSION PAPER - EXTRACTIVE ACTIVITIES

Memorandum of comment submitted in July 2010 by the ICAEW, in response to IASB discussion paper DP/2010/1 *Extractive Activities* published in April 2010

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INTRODUCTION

1. The ICAEW welcomes the opportunity to comment on the discussion paper DP/2010/1 *Extractive Activities*, published by the International Accounting Standards Board (the Board).

WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which has over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure that these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We welcome the publication of this discussion paper (DP) which makes an important contribution to the debate on whether or not there should be a separate financial reporting regime for extractive industries and if so, how that regime might be constructed. We are supportive of the project and would urge the Board to add it to their agenda. However, we do have some significant reservations concerning the proposals in the DP, as set out in our answers to the specific questions raised. We also found that the DP provoked thoughts on a number of matters that were not specifically addressed, and since we understand that the Board does welcome views on such matters, we set out below both our main points on the proposals and details of the areas where we believe further work could usefully be performed.

We strongly support the IASB project to develop a consistent accounting regime for the extractive industries

5. We believe it would be very helpful for the Board to put this project onto their post H1 2011 agenda, because currently there is often divergence of practice both between jurisdictions and between different sectors of the oil and gas and mining industries. This impairs the ability of analysts to compare companies within the extractive industries. However, a separate standard for extractive industries, although aiding comparability within the sector, will make comparison of companies in the extractive sector with companies operating in other industries more difficult.

Accordingly, we do not support development of a discrete IFRS for the extractive industries

6. The discussion paper presents itself as the basis for a possible IFRS to replace IFRS 6. We disagree with this approach. Many of the recognition and measurement issues faced by the extractive industries are already dealt with by IFRS, in particular by IAS 38 *Intangible Assets* and by IAS 36 *Impairment of assets*. Therefore, we believe that the

Board should look again at existing IFRS in the context of the extractive industries. Such a process could commence with a consideration of each of the current scope exemptions, in order to determine what would need to be done to remove them. Through this process, the Board could not only make the relevant standards useful to the extractive industries, but might also identify improvements to IFRS that are more widely applicable.

7. If, after this process, it is necessary to provide any special application guidance, this would best be dealt with by the production of either an IFRS Interpretations Committee interpretation or of 'training material'. If disclosures incremental to mainstream IFRS were seen as necessary, these could perhaps be dealt with in non-mandatory OFR/MD&A guidance. The exception to this approach are reserve definitions; these are specific to the extractive industries and it is important that they be established appropriately within IFRS literature. Further consideration should be given to whether it is desirable to contain such definitions within IFRS or whether it is better to refer to a definition maintained by a third party with the requisite technical expertise.
8. The Board should be mindful that other industries possess attributes that might lead them to believe that they also deserve their own discrete accounting regime. For example, under UK GAAP, Statements of Recommended Practice (SORPs) exist for, among others, the insurance and leasing industries; banking also previously had its own SORP. In addition to these very specialist areas, industries such as pharmaceuticals encounter comparable accounting challenges to extractive industries; for example in the recognition of intangible assets for research and development expenditure. In the interests of comparability between industries, divergent accounting principles should be minimised. We do not believe extractive activities (except for reserve definitions) present a sufficiently special case to necessitate a separate standard.

Discussion paper excludes other areas of accounting practice relevant to the extractive industries

9. The discussion paper (DP) is largely limited to a consideration of pre-extraction intangible assets and disclosures specific to the extractive industries. There are other areas of accounting practice that are also of particular relevance to the extractive industries, for example in relation to production sharing contracts and decommissioning costs, which are encountered more frequently in the extractive industries than in many other sectors. It is essential that these are also addressed such that future proposals constitute a comprehensive framework for the standardisation of accounting practices within the extractive industries (albeit across different IFRSs).

Historical cost appears to be the most appropriate measure for minerals or oil and gas properties. However, the Board should continue to evaluate the options.

10. We do not believe that it is appropriate to mandate the use of fair value for minerals or oil and gas properties. Members of our working party have conducted research among users of their financial statements, and this has indicated that users have little interest in the inclusion of fair value on the balance sheet. Furthermore, the volatility this would bring to both the balance sheet and the statement of comprehensive income may be detrimental to the assessment of an entity's financial position and performance. These issues may be avoided through the use of historical cost.
11. However, while historical cost will often be the most appropriate measurement method for minerals or oil and gas properties, we do not believe that the case has conclusively

been made at this early stage to exclude all other measures. Therefore we suggest that the Board continue to evaluate the alternatives.

Further development needed on the recognition of prospecting activity assets

- 12.** We believe that the proposal to recognise an asset for exploration, evaluation and pre-extraction development (prospecting) activities requires further development. The recognition principles must ultimately be consistent with the Framework and with IAS 38.
- 13.** However, it is important that the revenues achieved from a property can be appropriately linked with the investment made in establishing that property, as this assists in the calculation of the return on capital employed. The recognition of such costs on the balance sheet, as they are incurred, may allow them to be tracked more easily. If prospecting costs were to be expensed immediately, an anomalous situation would arise in cases where the property was later found to be viable for commercial development, as any asset recognised only from that point onwards would not represent the full development cost. Addressing this deficiency through disclosure would not necessarily be a solution because, as already stated, attempting to identify these costs retrospectively may be very difficult in practice.
- 14.** This thinking must be balanced with the requirement in the Framework and IAS 38 that it must be probable that future economic benefits will flow to the entity before costs are capitalised. We believe that the proposals for the recognition of prospecting activity assets require further development. Parallel examples from other industries could be used in establishing specific guidance for the extractive industries on asset recognition. With further examination, it may be possible to determine a set of recognition principles consistent with those in use elsewhere.
- 15.** Conflict with the Framework and IAS 38 commonly arises because it may be uncertain at the balance sheet date whether an exploration property has the potential to provide future economic benefits. Such uncertainty is not limited to the extractive industries; for a manufacturer commencing production of a new product line, a period of time may be necessary before the commercial viability of the product is proven. Similarly for development assets, while IAS 38 sets out a series of tests aimed at indicating commercial viability, whether or not any product will actually prove to be viable may not become clear until after a period of marketing activity. There are broad parallels here which could be investigated in establishing recognition guidance for the extractive industries. The alternative that is suggested by the discussion paper (ie; the development of a discrete standard for the extractive industries with an unclear relationship to the Framework) is not in our view a superior proposal.

Proposed disclosures are onerous

- 16.** We agree that entities should disclose information relating to their mineral or oil and gas reserves. However, we are concerned that the current proposals are likely to lead to an excessive and unhelpful volume of disclosure. We also note that the proposals would create a much more onerous regime for the extractive industries than for other sectors. For this reason we suggest that any note disclosures incremental to mainstream IFRS, if incorporated into the IFRS framework, should be contained within non-mandatory guidance.
- 17.** With each layer of additional disclosure, incremental costs are incurred by the preparer, and as the volume of data increases, analysis costs for users may also rise; these incremental costs must be balanced with the benefits offered by the additional

disclosures. It is particularly important to recognise that each additional level of disaggregation has the potential to add very significantly to the volume of disclosures. Cumulatively, the disclosures proposed in Chapter 5 would appear to be excessive, particularly where these are required to be disaggregated more than once (as in 5.44). We question whether the additional benefit users may gain from these disclosures is sufficient to offset the incremental costs.

18. We are also concerned that the proposed sensitivity analyses may prove particularly onerous to prepare whilst not presenting useful information for users.
19. We suggest that the Board might release a sample set of disclosures for a large multinational mining company and an oil and gas company, prepared in accordance with the proposals. This would enable commentators to form a clearer view of the volume of disclosure entailed, as well as allowing them to conduct a more detailed cost/ benefit analysis.

Disaggregation by country should not be mandated within International Financial Reporting Standards

20. We sympathise with the broad aims of the Publish What You Pay coalition, and agree in principle that certain information should be disclosed on a country-by-country basis to strengthen accountability of governments in resource-rich countries. We welcome the high quality of the wide range of disaggregated information disclosed voluntarily by some companies in the narrative section of their annual report, in independent corporate social responsibility reports and through their websites and other corporate publications. We support the continued development of such reporting.
21. The Framework establishes investors and other capital providers as the primary users of financial statements. We support this, in the interests of good financial reporting. This focus avoids the obfuscation of financial information through attempts to meet in full the many disparate and potentially-conflicting information needs of other user groups. This allows financial reports to be produced which contain clear, transparent and comparable financial information, focussed on investors but able to meet the primary information needs of a wide range of users. We question the value to investors of much of the proposed country-specific information; to the extent that it relates to taxation, the level of detail proposed is likely to be excessive for the purposes of economic decision-making. Information relating to revenue and profitability is already adequately disclosed in accordance with IFRS 8 *Operating Segments*.
22. For these reasons, we do not believe that mandating these types of disclosures within accounting standards is appropriate. Adoption by local authorities of something less than the full and unamended body of IFRS has been a major threat to the achievement of globally consistent financial reporting. Insertion into IFRS of detailed provisions motivated by the interests of public policy drivers other than investor needs is likely to provoke resistance in some quarters and may jeopardise global acceptance and increase local 'opt-outs' from full IFRS. Such a reaction may - perversely - result in a reduction in transparency and comparability. We believe it is highly likely that country-specific risk can be described in more cost-effective ways, probably in the context of OFR / MD&A disclosure.
23. We have noted in paragraphs 16-19 above that the disclosures contained in Chapter 5 are unduly onerous. These concerns are magnified, potentially exponentially, by the incremental disaggregation proposed in Chapter 6. In particular, materiality should be applied to any such disclosures in the same way as in the Framework as a whole.

24. We note that the SEC has been mandated by US legislation to require similar, but even more detailed, disclosures for SEC Registrants. In our view, it is only legislators in each jurisdiction that have the power and mandate to impose and enforce such requirements as a matter of public policy on companies listing or doing business in their market; the IASB has no such remit (and certainly not the power to mandate such disclosures). It remains to be seen how the SEC will operationalise the rules, particularly at such a low level of granularity, and whether the information is capable of audit.

Development of an accounting regime for the extractive industries must be conducted on a globally consistent basis

25. If the Board was to pursue the development of a stand-alone standard for the extractive industries, such a project has to be conducted on a globally consistent basis. Comparisons are frequently drawn between industry participants in the EU and other jurisdictions, particularly between those reporting under IFRS and those reporting under US GAAP. To ensure comparability between these entities it is highly desirable that all participants operate on a consistent accounting platform encompassing recognition, measurement and disclosure. To assist in the achievement of this, it would be helpful if the FASB were to follow the same route as the IASB in the development of an accounting regime for the extractive industries.

Proposals require further development before preparation of an Exposure Draft

26. As already indicated, we think there are a number of key issues to be resolved before an exposure draft can be developed. In particular, how the proposals can be integrated with existing IFRS; which areas will be covered in addition to pre-extraction intangibles; whether an option should be inserted to allow fair valuing of reserve assets; and what level of disclosure is desirable.
27. For these reasons we believe that the proposals are not yet in a position where they can be moved forward to the exposure draft stage. However, we would urge the Board to put the project onto its post H1 2011 agenda and for the proposals to be developed more fully on as timely a basis as possible. As global consistency is important in this sector, we would also suggest that it would be helpful for the FASB/SEC to follow the same route as the IASB on this project.

RESPONSES TO SPECIFIC QUESTIONS

Question 1 – Scope of extractive activities. In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas. Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

28. We do not agree that the project should result in the development of ‘an extractive activities IFRS’. Rather, we believe that the Board should look again at existing IFRS in the context of the extractive industries. Such an exercise could perhaps begin with the re-evaluation of all of the existing scope exemptions, determining the issues that would need to be addressed to resolve each. As well as allowing extractive industries requirements to be integrated into existing IFRS, this might also identify improvements that are more widely applicable. We recognise that the production of some specific application guidance may be necessary, and suggest that this take the form of an

interpretation or 'training material'. If it is felt that note disclosures incremental to mainstream IFRS are necessary, these could be provided as non-mandatory OFR / MD&A guidance. The exception to this is reserve definitions, where we believe separate provision for the extractive industries is necessary; this is discussed further below.

29. We do not agree that the specific accounting issues relevant to the extractive industries are limited to those set out in the DP. In particular we note that the accounting for production sharing contracts and for decommissioning costs is of particular interest to companies operating in the extractive industries. Production sharing contracts typically involve a contractual joint arrangement with a state or a national oil company; such arrangements specify how investment and production is to be shared and often also stipulate bespoke taxes or royalties. This raises a number of issues: the nature of the asset arising from the investment; the proportion of revenue each participant should recognise; and whether the various forms of 'state take' should be presented as taxes, operating costs or reductions in revenue. In the light of these concerns, we suggest that the Board give further consideration to these other accounting concerns of particular relevance to the extractive industries.
30. In the further development of the proposals the Board should also consider their impact on associated industries, such as those that involve the extraction of regenerative resources (eg, geothermal energy) or extraction without significant prospecting risk (eg, minerals from seawater or the extraction of water for bottling).

Question 2 – Approach. Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

31. We agree that there should be a single accounting and disclosure model that applies to both the minerals and oil and gas industries. The main objective in developing these proposals must be to improve consistency between companies operating in the same industry and comparability with companies in the wider economy. To achieve this it is imperative that the number of exceptions, if any, from mainstream IFRS be minimised. A single approach for both industries therefore appears appropriate.
32. It should be noted that there are real differences in both operations and current accounting practices not only between the minerals and oil and gas industries but also between sectors within these industries - most notably between the largest multinational companies and smaller market participants. However, in the interests of improved consistency, a single accounting regime should be developed that takes account of these differences.

Question 3 – Definitions of minerals and oil and gas reserves and resources. In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

- 33.** We would welcome further discussion on the alternatives to adoption of the CRIRSCO-SPE reserve definitions. The determination of mineral reserves and resources is a highly specialised area and industry standards must be agreed upon by appropriate experts. It is also essential for there to be a mechanism for the updating of these definitions when necessary. The alternative to referring to external definitions is for definitions to be embedded in the standard itself. This is likely to be problematic in practice, due to the need to update the definitions frequently to keep pace with developments in the industry.
- 34.** However, from a governance perspective, we would question the mandate of these organisations to promulgate definitions that are enforced through international accounting standards. We are concerned that such definitions may be exposed to challenge where it is shown that alternative measures promulgated by other organisations suggest a different outcome. We are also concerned that reliance upon third party organisations could lead to difficulties if questions were to be asked regarding their independence.
- 35.** We therefore suggest that the Board continue to discuss this topic to identify alternatives to the current proposal. Although we do not support publication of a separate IFRS for the extractive industries, we nevertheless recognise that special provision should be made for reserve definitions. Therefore we believe that once the principles of the definitions have been agreed either they or a link to the definitions themselves from a third party source should be published in IASB literature.

Question 4 – Minerals or oil and gas asset recognition model— recognition. In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a ‘minerals or oil and gas property’. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights. Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised and when should they be recognised initially?

- 36.** We believe that these proposals require further development. The recognition approach adopted by the extractive industries should ultimately be consistent with the principles of IAS 38 and with the definition of an asset in the Framework.
- 37.** Recognition of the cost of acquiring legal rights, and of conducting exploration, evaluation and development activities can provide useful information to users. The costs of establishing a particular property can be compared with revenues to assess the return on capital employed. A valuable measure of performance is established which can then be used for comparisons and monitored over time. Furthermore, such information, once written-off, may be difficult in practice to track.
- 38.** However, questions may arise under IAS 38, as it may be uncertain at the balance sheet date whether a property has the potential to provide future economic benefits. We urge the Board to continue to consider these issues. Such uncertainty is not limited to the extractive industries and parallels may be drawn with any industry where a new product of uncertain commercial viability is developed. Indeed, in both cases an assessment of commercial viability is likely to have been made by management. Further consideration may enable the Board to develop application guidance for the extractive industries that is consistent with the recognition principles of IAS 38.

Question 5 – Minerals or oil and gas asset recognition model—unit of account selection. Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team’s view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The project team’s view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

- 39.** We agree with the approach taken in the DP, which appears reasonable and practical in the circumstances. It also reflects how companies themselves build up information about a licence area. However, it is important to be clear what the aggregation principles would be in the event of non-cash producing unit of accounts in areas where the company has cash-producing fields. There are many examples where the commercial success of an area is dependent on a tie-back to another area’s production facilities or use of that areas pipelines or other transportation.

Question 6 – Minerals or oil and gas asset measurement model. Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties. The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information. The project team’s view is that these assets should be measured at historical cost but that detailed disclosure about the entity’s minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

- 40.** We do not believe that the case has adequately been made for mandating a particular valuation method. In particular we would not support mandating fair value. The calculation of fair value would entail significant incremental costs, but it is likely that the information provided would be insufficiently reliable to be useful, due to the subjective nature of fair value inputs in relation to unexplored properties. In addition, adjustments to the fair value recognised would result in significant volatility to both the statement of

financial position and to other comprehensive income. This additional volatility could detract from users' ability to assess the financial position and performance of the entity.

41. Research conducted by members of our working party indicated that users regard historical cost as the most appropriate valuation method. The question states that 'users think that...historical cost...would provide only limited relevant information'. The research suggested that this statement was not presented in the correct context. Users want to receive financial information that is understandable, relevant and reliable. The additional volatility and subjectivity imparted by fair value detracts from these attributes. Historical cost is an objective measure; it is easy to understand and reliable.
42. However, at this early stage it is not possible to conclude that mandatory historical cost in all circumstances is appropriate. We suggest that the Board continue to explore these issues.

Question 7 – Testing exploration properties for impairment. Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 Impairment of Assets. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties, management should:

- a. write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and
- b. apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

Do you agree with the project team's recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

43. We do not agree that an alternative impairment methodology be developed in conflict with IAS 36; rather we would suggest that IAS 36 be re-evaluated in view of the specific requirements of the extractive industries and that a discussion is commenced about how to address any issues identified. In many instances it may be found that the current requirements of IAS 36 can be applied without issue to the extractive industries. For more problematic situations, some specific application guidance may be necessary.

Question 8 – Disclosure objectives. In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:

- a. the value attributable to an entity's minerals or oil and gas properties;
- b. the contribution of those assets to current period financial performance; and
- c. the nature and extent of risks and uncertainties associated with those assets.

Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

- 44.** We question whether disclosure objectives should be set out at the standards level. General principles relating to the type of things that could be disclosed are more appropriately dealt with in the Framework; the standards should then set out the specifics of what should be disclosed in a particular area.
- 45.** We agree with (a). Users should be able to use the financial statements to evaluate the value attributable to an entity's minerals or oil and gas properties. However, disclosure of reserve quantities disaggregated by resource provides adequate information for users to calculate this. It is not necessary to ascribe a value to these reserves within the financial statements. Such a valuation could lead to inconsistency between entities, and the publication of material numbers that are highly dependent upon subjective assumptions. Due to their specialist and material nature the disclosures would also call for a separate valuation report to be issued alongside the accounts/audit report. Moreover it is not clear that general purpose financial statements are the appropriate place for this type of report.

Question 9 – Types of disclosure that would meet the disclosure objectives. Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:

- a. quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;**
- b. the main assumptions used in estimating reserves quantities, and a sensitivity analysis;**
- c. a reconciliation of changes in the estimate of reserves quantities from year to year;**
- d. a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;**
- e. separate identification of production revenues by commodity; and**
- f. separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).**

Would disclosure of this information be relevant and sufficient for users?

Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

- 46.** In paragraph 28 above we set out that we believe any note disclosures incremental to mainstream IFRS would be best contained in a non-mandatory guidance document such as that used for the OFR/MD&A.
- 47.** We agree in principle that some information relating to mineral or oil and gas reserves should be disclosed. For those entities that concentrate more on pure prospecting activities, probable reserves are often highly significant to their business and therefore of interest to users. Reserve disclosures must be applied consistently across all companies applying these note disclosures incremental to mainstream IFRS and consequently we feel that the disclosures should include probable as well as proved reserves.

48. However, we would question the extent of the disclosure requirements contained within the discussion paper. Members of our working party have conducted research among users of their financial statements and this has suggested that there is little appetite for the extent of incremental disclosure proposed.
49. Of particular concern are the proposals to disclose sensitivity analyses. These are likely to be voluminous in practice, difficult to prepare, and inherently subjective. Special consideration should be given to the practical application of this element of the proposals.
50. We are also concerned about the requirement to disaggregate reserve quantities by both commodity and geography. By disaggregating in multiple ways, the volume of disclosure increases very significantly.
51. Although individual elements of the disclosure package may find favour with users, we feel that cumulatively the benefit to be gained from the proposed package could be achieved by a significantly reduced set of disclosures. As our concern is the onerous nature of the disclosures in aggregate, we suggest that the Board prepare a sample set of disclosures for a large multinational mining company and an oil and gas company in order that constituents may better assess the entire package.
52. A sample set of disclosures would also allow constituents to better compare the proposals with current practice in other industries. A balance needs to be struck between adequately representing those attributes that are specific to the extractive industries and the level and type and disclosure presented under mainstream IFRS.

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 made 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.

53. We do not believe that it is appropriate to mandate within an accounting standard the types of disclosures proposed by Chapter 6. We sympathise with the broad aims of the Publish What You Pay coalition, and agree in principle that certain information be disclosed on a country-by-country basis to strengthen accountability of governments in resource-rich countries. We welcome the high quality of the wide range of disaggregated information disclosed voluntarily by some companies in the narrative section of their annual report, in independent corporate social responsibility reports and through their websites and other corporate publications. We support the continued development of such reporting.
54. The Framework establishes investors and other capital providers as the primary users of financial statements. We support this, in the interests of good financial reporting. This focus avoids the obfuscation of financial information through attempts to meet in

full the many disparate and potentially-conflicting information needs of other user groups. This allows financial reports to be produced which contain clear, transparent and comparable financial information, focussed on investors but able to meet the primary information needs of a wide range of users. We question the value to investors of much of the proposed country-specific information; to the extent that it relates to taxation, the level of detail proposed is likely to be excessive for the purposes of economic decision-making. Information relating to revenue and profitability is already adequately disclosed in accordance with IFRS 8 *Operating Segments*.

- 55.** However, adoption by local authorities of something less than the full and unamended body of IFRS has been a major threat to the achievement of globally consistent financial reporting. Insertion into IFRS of detailed provisions motivated by public policy drivers other than investor needs is likely to provoke resistance in some quarters and may jeopardise global acceptance and increase local 'opt-outs' from full IFRS. Such a reaction may - perversely - result in a reduction in transparency and comparability. We believe it is highly likely that country-specific risk can be described in more cost-effective ways, probably in the context of OFR / MD&A disclosure.
- 56.** We have noted in our answer to Question 9 that the disclosures contained in Chapter 5 are unduly onerous. These concerns are magnified, potentially exponentially, by the incremental disaggregation proposed in Chapter 6. In particular, materiality should be applied to any such disclosures in the same way as in the Framework as a whole.

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