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Berlin, 29 March 2012

cc:

Mr. Dr. Wolf Klinz
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Proposal for a directive of the European Parliament and the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings: Report on payments to governments

Dear Mr. Lehne,

On behalf of the IFRS Committee I am writing to comment on the European Commission's proposal for the directive on the annual financial statements, consolidated financial statements and related reports of certain type of undertakings (herein referred to as the 'Proposal') with respect to the report on payments to governments (Country-by-Country reporting). The IFRS Committee is pleased to have an opportunity to provide comments on the Proposal.



We understand the intention of the Country-by-Country reporting and generally support the efforts of the Commission to provide more transparency of payments made by the extractive industry to governments in resource-rich countries. However, we are not yet convinced that the proposed EU requirements are appropriate for addressing this matter. Our concern is that objectives of financial statements (providing information that is useful to investors, lenders and other creditors) are combined with other objectives as promoting governments' accountability and governance in natural resource-rich countries. Pursuing these additional objectives through financial statements adds considerably to the length and complexity of the annual financial statements. Therefore, we do not support the disclosure of country-by-country information in the annual financial reports. Instead, we recommend presenting this information in a separate report outside of the financial statements.

The proposed concept of Country-by-Country reporting is comparable to the US Dodd-Frank-Act Section 1504 that was adopted in July 2010. In this respect, we propose postponing the implementation of this reporting requirement in the EU until sufficient experiences will have been made with the comparable provisions pursuant to the Dodd-Frank-Act in the US.

If a Country-by-Country reporting was desirable within the EU, we believe its scope should not extend beyond the scope of the Dodd-Frank Act because of the high administrative burden for the respective entities. Therefore, the scope of Country-by-Country reporting should only include the public interest entities, but not the large undertakings as proposed by the Commission. For the same reason, the undertakings active in the logging of primary forests should not be subject to Country-by-Country reporting. Moreover, the Dodd-Frank Act Section 1504 requires information about payments made for engaging in resource extraction activities in the host country (that "are part of the commonly recognized revenue stream for the commercial development of oil, natural gas, or minerals"). The Commission's Proposal, however, does not limit the scope of the requested information to such payments. It can therefore be concluded that the resource extraction issuers shall report all payments to governments in the host country regardless of whether they relate to the commercial



development of resources or not. The definition of 'payments' should therefore be specified similar to the provision of the Dodd-Frank Act.

In order to enhance the transparency of the cross-border activities of the largest companies the Committee on Economic and Monetary Affairs (ECON) even suggests expanding the scope of the country-based reporting to the non-extractive industries and introducing an additional Country-by-Country reporting for countries, where companies operate without own separate legal entities or in joint-ventures. We do not support regional regulations in the EU on this issue. Firstly, the objectives and the user groups of such detailed country-based disclosures are not clear. Secondly, additional costs for the related companies cannot be assessed at this stage. Thirdly, IFRS 8 *Operating Segments* that all listed companies in the EU have to apply, already requires the reporting of some geographical information. We consider these disclosure requirements to be adequate and sufficient; they should not be expanded to require a country-by-country reporting. If, however, the additional geographical disclosures were to be needed for the specific users, we suggest, the respective requirements should not be developed at European level but on a broader international scale. We believe that the specific EU regulations would place European multinational companies at a competitive disadvantage. Requiring detailed country-by-country disclosures by multinational companies would significantly increase financial reporting costs.

The Commission's Proposal requires reporting payments if they are material to the recipient government. In our view, it is difficult and hardly possible to assess what is 'material' to the payee. Therefore, we agree with ECON's suggestion to limit the scope of Country-by-Country reporting by determining thresholds for the undertakings required to report and for payments to be reported. However, we believe that the thresholds suggested by ECON should be increased considerably.

Finally, the definition of 'government' should be specified. The proposed definition presumes that the information whether the payee is controlled by the government is publicly available, which is not always the case.



If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President