



To:	AASB members	Date:	17 November 2011
From:	Sue Lightfoot	Agenda Item:	15.1
Subject:	Extractive Industries Transparency Initiative (EITI)	File:	

Action

Receive a briefing on the Extractive Industries Transparency Initiative (EITI) and the proposed domestic pilot in Australia. The pilot is in the formative stage, therefore this is for information only and there are no decisions requested of the Board.

Overview

The Extractive Industries Transparency Initiative (EITI) is “a coalition of governments, companies, civil society, investors and international organisations”¹. It “sets a standard for companies to publish what they pay and for governments to disclose what they receive”². The EITI “aims to strengthen governance by improving transparency and accountability in the extractive sector”³.

EITI is of potential relevance to the AASB depending on whether the disclosures of the type required by EITI (which are arguably of a governance rather than financial reporting nature) are regarded as being within the scope of general purpose financial reporting.

Background

The EITI was launched at the World Summit on Sustainable Development in Johannesburg, September 2002, by the then UK Prime Minister, Tony Blair. Australia became a supporting country in 2006.

As described in the 2011 Edition of the EITI Rules, the EITI is “a globally developed standard that promotes revenue transparency at the local level. It is a coalition of governments, companies, civil society, investors and international organisations. Through robust yet flexible methodology company payments and government revenues are published and discrepancies are reduced” “implementation takes place at the country level, in a process that emphasises multi-stakeholder participation”⁴. (Civil Society refers to organisations which are non-governmental and non-commercial, for example Oxfam and Transparency International.)

1 EITI Rules, 2011 Edition <http://eiti.org/files/1-11-2011-EITI-RULES-VALIDATION.pdf> 17 November 2011
2 EITI homepage <http://eiti.org/> 17 November 2011
3 EITI Fact Sheet <http://eiti.org/files/2011-09-05%20EITI%20Fact%20Sheet.pdf> 17 November 2011
4 EITI Rules, 2011 Edition <http://eiti.org/files/1-11-2011-EITI-RULES-VALIDATION.pdf> 17 November 2011

The EITI requires, under its first criterion:

“Regular publication of material oil, gas and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.”⁵

A number of countries including Australia, the UK, USA, Canada and Norway have formally endorsed and support the EITI. Norway was the first OECD country to implement the EITI and is the only developed country that is EITI compliant. Norway also hosts the EITI secretariat. 35 countries are implementing the EITI and 12 countries have achieved “compliant” status.

EITI Implementation

There are 21 requirements for implementing countries to achieve a compliant status. These are set out in the EITI Rules. Under those rules the government is required to establish a multi-stakeholder group (MSG) to oversee the implementation of the EITI. The MSG must include “civil society” and “companies”.

A key element to the requirements is the publishing and dissemination of the EITI Report. The determination of the relevant payments and revenues to be included in the report is determined by the participants in the MSG. The payments and revenues reported are reconciled by an independent administrator. Company and government reports are required to be presented according templates agreed by the MSG and audited to international standards. The 21 requirements cover the following:

- Sign-up (5)
- Preparation (8)
- Disclosure (4)
- Dissemination (1)
- Review and validation (2)
- Requirement for retaining compliant status (1)

A validator is appointed to provide an external and independent evaluation of whether an EITI implementation has met the requirements and is consistent with the EITI principles. This process results in a Validation Report. The EITI Board analyses the report and considers whether the country is EITI compliant. To achieve compliant status, a country must complete EITI validation within two and a half years of becoming a candidate country. Once a country is compliant, it must undergo validation every five years, or upon the request of the EITI International Board.

Australian Pilot

Australian Foreign Minister, Kevin Rudd, and Resources Minister, Martin Ferguson, announced on 27 October 2011 that Australia would conduct an EITI pilot that would commence on 1 July 2012. Australia has also made a funding commitment of US\$12.7 million as part of a broader Mining for Development Initiative announced by Prime Minister Julia Gillard.

5 EITI Rules, 2011 Edition <http://eiti.org/files/1-11-2011-EITI-RULES-VALIDATION.pdf> 17 November 2011

The first meeting on the EITI pilot was held in Melbourne on 3 November 2011 with representatives from federal and state governments, industry and civil society organisations. An AASB staff member (Sue Lightfoot) attended the meeting as an observer, at the invitation of Bruce Donald, Senior Advisor at the Corporations and Capital Markets Division, Treasury. The meeting was chaired by Tania Constable, Head of Resources Division at the Department of Resources, Energy and Tourism. At that meeting a number of practical issues were highlighted, for example certain privacy laws which affect the ability of the Australian Taxation Office to release tax data, and the timeliness with which relevant data could be made available.

The next meeting will be held on 8 December 2011.

No decision has been made on whether Australia will seek to move from pilot to implementation. One of the objectives of the pilot will be to consider whether to move from the pilot to full implementation. Similarly, the scope and deliverables of the pilot are to be determined by the MSG. This would include, amongst other considerations, which States participate in the pilot, which payments/revenues are included, the reporting threshold (“materiality”), and which companies from which extractive industries. The MSG would also need to consider whether reporting is on a cash or accruals basis as this is not specified by the EITI.

Relevance of EITI to AASB

EITI is of potential relevance to the AASB depending on whether the disclosures of the type required by EITI are regarded as being within the scope of general purpose financial reporting. Furthermore, it is relevant to note that the discussion paper on Extractive Industries DP/2010/1 which was published in April 2010 included a chapter on Publish What You Pay (PWYP) proposals. PWYP is a coalition of non-governmental organisations advocating extractive industries to publish what they pay, and governments to publish what they earn, on a country by country basis. PWYP is a supporter of EITI.

The AASB made the following comment in relation to PWYP in its comment letter on DP/2010/1:

“The AASB considers that the issue should be considered in the context of the objective of financial reporting, and a decision made as to whether the users identified by the Publish What You Pay (PWYP) coalition are among those users identified in the *Framework*. The AASB considers that the types of disclosure sought by the PWYP coalition are likely to be outside the scope of financial reporting and that alternative means of making the information available should be pursued. It is the AASB’s understanding that many entities in the extractive activities already support the Extractive Industries Transparency Initiative which sets a global standard for transparency in mining and oil and gas, therefore requiring PWYP disclosures may result in a duplication of information. It has also come to the AASB’s attention that The Prince’s Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) are forming the International Integrated Reporting Committee (IIRC). The IIRC will bring together representative from the corporate, accounting, securities, regulatory, non-government organisations, and standard-setting sectors. The objective of the IIRC will be to create a globally accepted framework for accounting sustainability that brings together financial, environmental, social, and governance information. The AASB considers that this may be a more suitable vehicle for the PWYP disclosures and the IASB should alert the PWYP collation to this initiative.”

The IASB does not have a project on its active agenda that is considering PWYP disclosures. However the comment period for the IASB’s Agenda Consultation is open until 30 November 2011. Two possible projects that could address this issue, which are mentioned in the Agenda Consultation Paper, are Extractive Industries, and Country-by-Country Reporting (in October 2010,

the European Commission published a questionnaire to gather views on reporting on a country-by-country basis by multi-national entities).

EITI in Other Countries

The majority of EITI compliant and candidate countries are developing countries from Africa. As at 17 November 2011 the following countries were listed on the EITI website as being compliant or candidate status countries:

Compliant countries: Azerbaijan, Central African Republic, Ghana, Kyrgyz Republic, Liberia, Mali, Mongolia, Niger, Nigeria, Norway, Timor-Leste, Yemen (suspended).

Candidate Countries: Afghanistan, Albania, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Democratic Republic of Congo, Gabon, Guatemala, Guinea, Indonesia, Iraq, Kazakhstan, Madagascar (suspended), Mauritania, Mozambique, Peru, Republic of Congo, Sierra Leone, Tanzania, Togo, Trinidad and Tobago, Zambia.

Section 1504 of the Dodd-Frank Act in the USA was adopted on 21 July 2010. This requires resource extractors who are listed on US stock exchanges to disclose in an annual report, payments made to foreign or Federal Governments for the purpose of commercial development of oil, natural gas or minerals. That information must be prepared by government and project-by-project. Payments include taxes, royalties, fees, production entitlements, bonuses and other material benefits, consistent with the guidelines of the EITI (to the extent practicable).

The U.S. Securities and Exchange Commission (SEC) proposed that this information would be required to be provided annually in its annual report and would be included in two exhibits — one exhibit that would be filed in text format and another exhibit filed in XBRL. The comment period on this proposal closed on 2 March 2011 (extended from 31 January 2011).

On 20 September 2011, President Obama declared that the United States would also implement the EITI as part of its Open Government Partnership (OGP) National Action Plan and has appointed US Secretary of the Interior Ken Salazar as the senior individual for the oversight of the US implementation.

Further information on EITI including the EITI Rules is available on their website <http://eiti.org/>. Alternatively contact Sue Lightfoot who will provide you with a copy of the EITI Rules.