BIS | Department for Business Innovation & Skills

A LONG-TERM FOCUS FOR CORPORATE BRITAIN
Call for Evidence Response Form

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Organisation (if applicable): Publish What You Pay

Publish What You Pay (PWYP) is a network of over 600 civil society organisations from resource-rich developing countries and international non-governmental organizations working to ensure that oil, gas and mining revenues are used for economic development and poverty reduction. In the UK our members include Oxfam, Christian Aid, ActionAid, CAFOD, ONE, Save the Children, Transparency International, Open Society Foundations, Tearfund, Revenue Watch Institute and Global Witness.

PWYP welcomes the Government's consultation into a long-term focus for corporate Britain, particularly the Government's focus on promoting stability, improving corporate governance and addressing the needs of investors.

Our submission focuses on the benefits of improving extractive industry transparency for the investor community, for the extractive industries themselves and for civil society in resource-rich countries. We believe a requirement for extractive companies listed on the London Stock Exchange to report country- and project- specific payments to foreign governments (as has recently been introduced on the US SEC through the Dodd-Frank Wall Street and Consumer Protection Act 2010) would achieve these significant benefits.

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	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
X	**Non governmental organisation (NGO)**
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

<u>Question 7</u>: Is short-termism in equity markets a problem and, if so, how should it be addressed?

Comments
Short-termism in equity markets could be addressed, in part, by introducing a requirement for companies engaged in the commercial development of oil, gas and minerals listed on the London Stock Exchange to disclose their payments to all governments on a country- and project- specific basis. If investors know where companies are making payments and how much they are paying, it will help them value companies, evaluate regulatory, taxation, geo-political and reputational risks and enhance company accountability and governance. Thus, such reporting requirements enable and encourage a longer-term investment focus in these lucrative and high-risk industries. A similar requirement has been introduced to the US Securities and Exchange Commission (SEC) in Section 1504 (Disclosure of Payments by Resource Extraction Issuers) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (passed on July 15 2010). This requires companies engaged in the commercial development of oil, gas and mining to publicly disclose, in their annual report to the SEC, the payments they make to the US Federal Government and foreign governments on a country- and project-specific basis.[1] The SEC will make these rules effective no later than the end of April 2011. Investors in the companies operating in resource-rich states and citizens in those states share a fundamental interest in transparency, improved governance and stability. While investors can use the information relating to company payments made to governments to value companies and evaluate risk, civil society organisations and citizens in producing countries are able to use this information to scrutinise a government's collection and use of revenues from resource extraction (in 2008, exports of oil and minerals from Africa were worth roughly $393 billion - nine times the value of international aid which was $44 billion). Thus, if resource-rich states properly manage their revenues, they will have higher and broader based economic growth that will increase stability and create new markets for investors and companies in an increasing globalised world. F&C Asset Management note the bottom-line risks for investors of the lack of transparency of payments in extractive industries: *"Investors have a strong interest in ensuring that the oil, gas and mining companies in which they invest have access to resources and can operate in*

[1] http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h4173enr.txt.pdf

a stable and predictable business climate, especially at a time when the most attractive reserves are often in politically unstable regions."[2]

The US Social Investment Forum (SIF) and Calvert Investment Management explain the benefits of stock exchange transparency listing rules to investors in a submission to the US SEC regarding the development of the new SEC rules:

"...the world's exploitable conventional energy sources are receding further into areas where large-scale resource extraction has not taken place recently or in a comparable manner. Unfortunately, many of these resource-producing operating environments pose regulatory, taxation, political, and reputational risks that current reporting required of resource extraction issuers does not address adequately.

These concerns extend to the operations of resource extraction issuers in relatively stable developed countries as well, because financial risks associated with unanticipated natural resource tax and permitting policy changes up to and including resource nationalization persist. Although some companies have taken productive voluntary steps to improve disclosures similar to those required by Section 1504, investors do not have access to the sufficiently detailed, audited, consistent, and comparable data regarding host government payments, such as taxes, royalties and bonuses to account for the risks mentioned above."[3]

SIF and Calvert Investment Management also explain how stock exchange transparency listing rules would benefit extractive companies, particularly with long-term projects, as a result of the increased information available to investors:

"Section 1504 creates substantial value as a means of risk recognition and mitigation for both investors as well as resource extraction issuers registered with the Commission. The disclosure of the data required pursuant to Section 1504 should enable investors to have enhanced confidence in management's guidance regarding future production and should attract assets from long-term equity investors to compliant issuers, which should provide greater stability to an issuer's asset base and enable management to make forward-thinking decisions in the interest of investors with the confidence that the outcomes of

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[2] F&C Asset Management, REO Report, 4th Quarter, 2006: http://www.accpf.org.uk/investment/inv_pdf/reo4q06.pdf

[3] Letter and submission from SIF and Calvert Investments to SEC, 15 November 2010: http://www.sec.gov/comments/df-title-xv/specialized-disclosures/specializeddisclosures-49.pdf

[4] Letter and submission from SIF and Calvert Investments to SEC, 15 November 2010: http://www.sec.gov/comments/df-title-xv/specialized-disclosures/specializeddisclosures-49.pdf

[5] Letter to DG Internal Markets, European Commission, 21 December 2010, from Domini Social Investments LLC, Global Financial Integrity, Interfaith Center on Corporate Responsibility, Calvert Asset Management, Investor Environmental Health Network, Loring, Wolcott & Coolidge Trust LLC, Missionary Oblates, PaxWorld Management LLC, Progressive Asset Management, Trillum Asset Management

those decisions will be judged over long-term investment horizons." [4]

On 21 December 2010, a group of 11 investment organizations, with over $20 billion under management, wrote to the European Commission to ask for country-by-country reporting by the extractive companies, and preferably all multinational corporations listed on a stock exchange, stating that this would:

"1. Enhance the information available to us to assess risk arising within the corporations in which we invest;
2. Provide us with information on the following issues, currently unavailable, but which would impact on our decision making processes if available:
a. Where corporations trade;
b. The relevant importance of different jurisdictional markets;
c. Where they do and do not pay their taxes;
d. Where they earn their profit;
e. How they structure their businesses;
f. How they structure their internal supply chains;
g. Where they allocate their resources;
h. Where they expose investors to geo-political risk;
3. Assist us in making decisions on the allocation of the capital under our management to corporations operating in the world's financial markets."[5]

<u>Question 17:</u> Do you have any further comments on issues related to this consultation?

Comments
The UK has the opportunity to create a new global standard of extractive industry transparency by introducing a similar transparency reporting requirement to the London Stock Exchange as has been introduced through the US Dodd-Frank Act to the SEC. The UK can further promote this new global standard by encouraging the EU to adopt a parallel reporting requirement for stock exchanges in all Member States through the EU Transparency Directive. Stock exchange transparency listing rules would benefit investors who seek more detailed information to evaluate risk and value companies, the UK Government for whom reliability of commodity supplies, energy security and greater stability in the resource-rich regions of the world are key strategic interests, and citizens in resource-rich countries (over half of the poorest people in the world live in resource-rich countries). This confluence of interests around greater transparency, improved governance and stability has already led to the development of a number of

global standards and initiatives, as well an increasing incidence of voluntary disclosure by extractive companies. Leading examples include:

- **Industry adoption of payment disclosure policies**: Newmont Mining Company (US)[6], Statoil Hydro (Norway)[7], Talisman Energy (Canada)[8], and Anglo Gold Ashanti (South Africa)[9] publicly disclose payments on a country-by-country basis for all countries of operation. Rio Tinto (United Kingdom-Australia)[10] and AngloAmerican (United Kingdom)[11] disclose payments in a selection of countries where they operate. BHP Billiton committed to publishing its payments to governments in each country of operation at its Forum for Corporate Responsibility meeting on May 20 2010.[12]

- **Stock exchange payment disclosure requirements:** As well as the introduction of US SEC reporting requirements, the Hong Kong Stock Exchange (HKEX)[13] and the Alternative Investment Market (AIM) of the London Stock Exchange already adopted similar country-by-country disclosure requirements for extractive companies in their initial listing application.[14]

- **Development and expansion of the Extractive Industries Transparency Initiative (EITI):** Since its founding in 2002, the EITI has grown to include 33 participating countries, although only five of these have been deemed "compliant" to date. The introduction of stock exchange transparency requirements in the US and UK would strengthen and build upon the momentum created by the EITI in two

[6] For sample table, see: http://www.beyondthemine.com/2009/?l=2&pid=4&parent=17&id=148

[7] For sample table, see: http://www.statoil.com/annualreport2009/en/financialperformance/positiveimpacts/pages/overviewofactivitiesbycountry.aspx

[8] For sample, see: http://cr.talisman_energy.com/2009/key_performance_indicators/economic_performance.html

[9] For sample, see page 53 in the report: http://www.anglogold.co.za/subwebs/informationforinvestors/reports09/SustainabilityReview09/f/AGA_SR09.pdf

[10] Rio Tinto published its total tax and royalty payments to each of 13 countries where these payments totaled USD $10 million or more in its 2008 annual CSR report. In 2009 the number of specific country disclosures had increased to 18 out of 29 countries where the company had operations. Rio Tinto asserts that it does not make significant (material) profits in any country that is not specified in the list. For sample, see: http://www.riotinto.com/ourapproach/17213_socioeconomic_development_17363.asp

[11] For sample, see page 21 in the report: http://www.investis.com/aa/docs/RTS_08_final.pdf

[12] http://www.bhpbilliton.com/bbContentRepository/docs/ourSustainabilityFramework.pdf at Page 8 mentions commitment to disclosing payments to government on a regional basis. See BHP Sustainability Report at Pages 25-26 http://www.bhpbilliton.com/bbContentRepository/docs/sustainabilitySupplementaryInformation2010.pdf

[13] HKEX adopted a payment disclosure rule in June 2010 requiring any company with more than 25 percent of its assets in natural resources to disclose the payments it makes to governments at the time of its application to list with HKEX. See: http://www.hkex.com.hk/eng/rulesreg/listrules/mbrulesup/Documents/mb96_miner.pdf

[14] The AIM rules require extractive companies being listed for the first time on AIM to "disclose any payments aggregating over £10,000 made to any government or regulatory authority or similar body made by the applicant or on behalf of it, in regards to the acquisition of, or maintenance of its assets." See Page 4 in http://www.londonstockexchange.com/companies-and-advisors/aim/advisers/rules/guidance-note.pdf

ways: 1) by covering companies operating in countries unlikely to join the initiative, including Russia, China, Burma and Cambodia, as well as companies operating in countries that are unable to meet the initiative's requirements; and 2) by producing complementary information to data produced by other companies and other countries within EITI processes. It is hoped that more countries will join the EITI once the stock exchange transparency requirements on the SEC are in force.

The UK has a historic opportunity to ensure fairness and accountability in the oil, gas and mining industries by supporting the new US SEC transparency rules with parallel listing requirements for the London Stock Exchange. This would level the playing field for many UK extractive companies who will soon have to report the information to the SEC; would help investors assess the risks of their investments in what are often very high-risk operating environments in impoverished countries with unstable governments; and would help to reverse the 'resource curse' where corruption in resource-rich countries too often fuels conflict, poverty and suffering instead of development.