Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Implementation of Chapter 6 EU transparency Directive – Country by Country Reporting	
Lead Department/Agency	HM Treasury	
Stage	Final	
IA number	Not provided	
Origin	European	
Expected date of implementation	January 2015 (SNR 9)	
Date submitted to RPC	28 November 2014	
RPC Opinion date and reference	11 December 2014	RPC14-HMT-2237(2)
Departmental Assessment		
One-in, Two-out status	**IN**	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	**£33.6 million** **('IN' of £33.6 million for period of early implementation)**	
RPC Overall Assessment	**GREEN**	

RPC comments

The impact assessment is fit for purpose. It addresses the points raised in the Committee's previous opinion (19 November 2014). HM Treasury has provided more detail on the breakdown of costs from the European Commission's impact assessment.

HM Treasury has now set out the equivalent annual net cost to business (EANCB) of the whole proposal (£33.6 million), as well as identifying where it has 'gold-plated' the EU Directive as a consequence of early implementation . It estimates a separate EANCB of £33.6 million for this 'gold-plating'. The RPC is able to validate these estimated costs to business.

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

"Across the world, natural resources make substantial contributions to the public budgets of many developing countries. However, the citizens of these countries

often remain extremely poor. This is in part because many governments of developing countries have failed to responsibly manage the large payments made to them by extractives companies in return for access to natural resources. The absence of good governance and the lack of transparency around these payments reduce the positive impact that extractive industries can have on economic development. It also negatively impacts on UK listed companies and investors active in the extractives sector through poor business environment."

What are the policy objectives and the intended effects?

"Chapter 6 of the Transparency Directive now requires EU listed extractive companies to report their payments to governments around the world. This is intended to improve accountability by allowing citizens in these countries to access information about payments made, and increase their ability to hold their governments to account regarding use of the revenues. This relies on the assumption that the democratic processes in the relevant countries are robust enough to allow citizens to hold governments to account in the presence of information about payments. By improving accountability, the policy aims to reduce the space for corruption and other illicit activities, and ensure that citizens of developing countries benefit appropriately."

Comments on the robustness of the OITO assessment

The proposal is of European origin. HM Treasury explains that this is a regulatory proposal that would impose a net cost on business (an 'IN') of £33.6 million each year. The 'IN' is due to the decision taken to implement the requirements of the Directive, just under one year in advance of the deadline set by the EU Directive. HM Treasury is 'gold-plating' the EU Directive, therefore, imposing additional burdens on business. Based on the evidence presented, HM Treasury's assessment appears reasonable and is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10).

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposal is European in origin. A SaMBA is, therefore, not required.

Quality of the analysis and evidence presented in the IA

HM Treasury explains that the aim of Chapter 6 of the EU Directive is to raise global standards of transparency in the extractives sector, by requiring companies to report publicly on the payments they make to governments in all their countries of operation.

Robustness of the assumptions to determine the costs to business. Drawing on the European Commission's 2011 impact assessment which accompanies the EU Transparency Directive, HM Treasury has provided additional information on how it has determined the impact of the proposal on UK business. HM Treasury explains that the European Commission's impact assessment has calculated that 171 EU listed companies will face one-off administrative costs of €548 million, with a recurring annual cost of €192 million.

HM Treasury has used the London Stock Exchange's official list of all UK companies to identify 80 extractive companies. 37 of these 80 businesses are UK registered and will not face additional costs, because these businesses will already be covered by the requirements of the EU Accounting Directive. The remaining 43 companies are not UK registered and will be affected by the requirements of the Directive. Using this proportion, HM Treasury estimates that one-quarter of the Europe-wide costs will be borne by UK companies. Using HM Treasury's assumed exchange rate of €1 to £0.78, this equates to one-off administrative costs of £106.2 million over ten years, and recurring annual costs of £37.4 million over ten years (in 2011 prices).

HM Treasury has not been able to break down the costs to business, but is content with the estimates produced by the European Commission, following consultation. Due to the commercial sensitivity of information provided to the Commission, HM Treasury was not able to derive disaggregated data. However, it adds further detail to its impact assessment on what the costs of the proposal will entail. It explains that extractive companies will bear the costs of the proposal – namely, the costs of becoming familiar with the regulatory requirements and of providing support for any subsidiary companies with which they are involved. They will incur further transition costs to adapt existing financial reporting systems in order to meet the new reporting requirements of the Directive, for example staff training. The Directive will also require extractive companies to report relevant information on a per project basis to the relevant authorities.

Appraisal period. HM Treasury has now presented the costs of this proposal over a ten year appraisal period. HM Treasury has calculated the equivalent net cost to business as £33.6 million each year. HM Treasury has also identified the period of 'gold-plating' as a consequence of implementing the requirements of the Directive nearly one year in advance of the specified EU deadline for transposition. The cost of this 'gold-plating' equates to the first year cost of the proposal.

Signed **Michael Gibbons,** Chairman