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# *Straight away*

## EU financial reporting bulletin from PwC

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14 June 2013

### ***EU introduce requirements to disclose payments to governments***

#### ***Background***

The European Commission has approved a directive introducing new disclosure requirements for entities in the extractive and logging industries. Affected entities will be required to report annually payments made to governments, and to make this information available to the public. A 'government' is defined as 'any national, regional or local authority of a member state or of a third country'; this includes departments or agencies controlled by that authority.

The objective of the new directive is to promote the adoption of the Extractive Industries Transparency Initiative (EITI) and increase transparency on payments made to governments. The mandatory disclosure requirements are similar to those introduced in the US by the Dodd-Frank Act.

#### ***Scope of new directive***

The scope of the new requirements covers listed entities and large undertakings in the extractive industries and the logging of primary forests. The new directive defines a large undertaking as one which exceeds two of the three following criteria: turnover of €40

million; total assets of €20 million; and 250 employees.

An undertaking active in the extractive industry means an undertaking involved in the extraction of crude petroleum or natural gas, or involved in the mining and quarrying of various commodities. It does not include entities that only provide support activities.

Parent undertakings are required to prepare a consolidated report if any subsidiaries are active in the stated industries. Such a consolidated report should only include payments resulting from those activities.

#### ***Disclosure requirements***

The types of payment to be reported are:

- production entitlements;
- taxes on income, production or profits;
- royalties;
- dividends;
- signature, discovery and production bonuses;
- licence fees, rental fees and other consideration for licences and/or concessions; and
- payments for infrastructure improvements.

Payments below €100,000 (whether made as a single payment or as a series of related payments) do not need to be disclosed.

Disclosures are required, on a country-by-country basis, of:

- the total amount of payments, including payments in kind, to each government during the year; and
- the total amount per type of payment to each government.

Where payments have been attributed to a specific project, this information should also be disclosed on a project-by-project basis.

Payments in kind are required to be reported in value or in volume. If reported in value, the method used to determine the value should be disclosed.

### *Exceptions from scope*

An entity is not required to produce a report if it is a subsidiary of a parent providing a consolidated report that includes all payments made by the subsidiary.

Undertakings can be excluded from a parent's consolidated report if:

- there are severe long-term restrictions on the parent's ability to exercise its rights in relation to the undertaking; or
- the parent holds the shares of the undertaking exclusively with a view to re-sale.

The directive also allows undertakings to be excluded where the necessary information cannot be obtained without disproportionate expense or delay, but states that such cases are expected to be extremely rare.

There is no exception for payments where public disclosure of the payment is prohibited by legislation in a particular country.

### *Form of report*

There is no prescribed format for the report. We expect that a tabular presentation will often be used.

The report will not form part of the IFRS financial statements, and the directive does not specify a requirement for the report to be audited. Individual member states can introduce their own requirements in this area.

### *Am I affected?*

The disclosure requirements will affect all listed and large non-listed entities in EU member states that are active in the extractive industries or the logging of primary forests.

### *What's next?*

Each EU member state is responsible for passing the requirements of the directive into local legislation. It is expected that the requirements will come into effect for periods beginning on or after 1 January 2016.

The Commission is also debating whether to extend the requirements to other industries.

If you have any questions about the requirements of this directive, please contact your PwC engagement partner. Engagement teams that have questions should speak to their Global Accounting Consulting Services or Tax contact.