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ARLENE MCCARTHY  
MEMBER OF THE EUROPEAN PARLIAMENT  
UNITED KINGDOM, NORTH WEST REGION

Chairman Mary L. Schapiro  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20548  
United States

Tuesday 13th March 2012, Brussels

Dear Chairman,

**Section 1504 of the Dodd Frank act: Project level reporting**

I am writing to you regarding the US definition of project-level reporting in section 1504 of the Dodd Frank act, requiring the extractive industries to publish what they pay to 3rd party governments for access to their resources.

As you will be aware, the EU is currently drafting new rules in this area by amending the existing Transparency and Accounting directives. As rapporteur for the Transparency directive and Vice-chair of the Economic and Monetary Affairs committee in the European Parliament, I have been following the implementation and debate surrounding the Dodd Frank act closely.

Amendments to the Transparency and Accounting Directives have already been proposed by the European Commission, and the European Parliament will now discuss and amend the proposals, with the deadline for tabling amendments in the Parliament being set in early May. Given that the US has made faster progress in this area some Member States see the proposed US rules as a benchmark, and are fearful that if the EU implements stricter rules then European companies will be competitively disadvantaged.

In light of this, I am writing to urge you to consider a strong definition of project-level reporting that would ensure that companies report on lease, licence or other concession-level arrangements that assign rights and financial obligations. I believe that these disclosures should include - but not be limited to - licence fees, royalties, production entitlements and bonuses.

A strong definition in this area will bring benefits to people the world over, from empowering the local communities in the areas of resource extraction to hold their governments to account, to enabling investors in the extractive industry to properly assess specific risks. For example, in the Democratic Republic of Congo, the Mining Code stipulates

that 25% of tax revenues from a mining project should be allocated to the province in which the extraction took place. Of this proportion, 15% should be allocated to the local territory or town. However, due to the lack of revenue transparency there is no way to determine how much tax the local project generates and analysis carried out by the World Bank suggests that local governments are not receiving any of the revenue.

I do not believe that this level of reporting would be significant financial burden on the extractive industries. The European Commission's impact assessment estimates that it would cost the 171 European companies that would be covered by the European rules 0.05% of their annual revenues in the first year of implementation, and less thereafter. Furthermore, these concession-level agreements are common place in the extractive industries, typically covering specific geographical areas within a country - for example, an "oil-block" within the oil and gas industry. Therefore, the effected companies must already be keeping records of their implementation of contract terms at some level within the company. Project-level reporting is also unlikely to reveal confidential information, as extractive companies are already aware, to a large degree, the terms of the contracts that their competitors make with governments. The information required, in itself, is not commercial sensitive and could not be used to deduce a company's contract terms and other matters unless companies had access to other information that was not in the public domain.

Strong rules on project level reporting would add another much needed level of transparency to the operation of the extractive industries, and I hope you will consider the points I have raised when finalising the definition within the US legislation.

Yours sincerely,

A handwritten signature in black ink that reads "Arlene McCarthy". The signature is written in a cursive, flowing style with a prominent loop at the end of the last name.

Arlene McCarthy  
Member of the European Parliament | Labour, North West Region