IFRS®
Accounting

December 2023

Project Summary

IFRS® Accounting Standards

Extractive Activities

Project Summary

This document summarises the research findings and decisions of the International Accounting Standards Board (IASB) on its project on Extractive Activities.

Contents

At a glance

The IASB's research

The IASB issued IFRS 6 *Exploration for and Evaluation of Mineral Resources* as an interim step in the accounting for extractive activities.

Between 2018 and 2023 the IASB researched whether to amend or replace IFRS 6, including research on improving:

- recognition and measurement requirements to reduce the diversity of accounting policies used in practice for exploration and evaluation expenditure;
- disclosure requirements to increase the transparency, comparability and relevance of information provided in financial statements about that expenditure and the related activities; and
- other IFRS Accounting Standards to address matters relating to extractive activities identified by stakeholders that are not in the scope of IFRS 6.

The IASB's decisions

The IASB decided not to develop new or amended recognition, measurement or disclosure requirements for exploration and evaluation expenditure or other aspects of accounting for extractive activities. The IASB did not find compelling evidence that standard-setting would be necessary.

The IASB acknowledged that diverse accounting policies for exploration and evaluation expenditure would continue to be used in practice. However, feedback from investors and other users of financial statements suggested that those diverse accounting policies were not a significant concern.

Overall, the research findings suggested that any improvements to financial reporting that might result from amending or replacing the requirements in IFRS 6 or other IFRS Accounting Standards are likely to be outweighed by the costs of developing and implementing any such changes.

Following completion of its comprehensive review of the accounting for extractive activities, the IASB decided to remove the word 'Temporary' from the heading of the section in IFRS 6 that exempts an entity from applying some of the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to its accounting policies for exploration and evaluation expenditure.

Background

IFRS 6 was issued as an interim measure in 2004, before the IASB completed a comprehensive review of accounting for extractive activities, to help entities that were changing the basis of preparing their financial statements to IFRS Accounting Standards at that time.

Paragraphs 11–12 of IAS 8 specify a hierarchy of criteria that an entity uses to develop an accounting policy if no IFRS Accounting Standard applies to a particular item. IFRS 6 provided an exemption from those requirements because entities adopting IFRS Accounting Standards at that time would otherwise have needed to assess whether their accounting policies for exploration and evaluation expenditure complied with those requirements.

That exemption avoided unnecessary disruption to practice by allowing, with some exceptions, entities to continue using their existing accounting policies, pending the completion of the comprehensive review of the accounting for extractive activities.

To limit the effect of the exemption, the IASB developed some requirements for the accounting for exploration and evaluation expenditure. An entity is also still required to apply paragraph 10 of IAS 8 when developing its accounting policies, requiring accounting policies to be developed that result in information that is relevant and reliable.

In 2010, the IASB published the Discussion Paper *Extractive Activities*, following a research project undertaken by staff from the national standard-setters in Australia, Canada, Norway and South Africa. Feedback on the Discussion Paper provided input into the IASB's research project on Extractive Activities, which was included in the IASB's research project pipeline in 2016 and started in 2018.

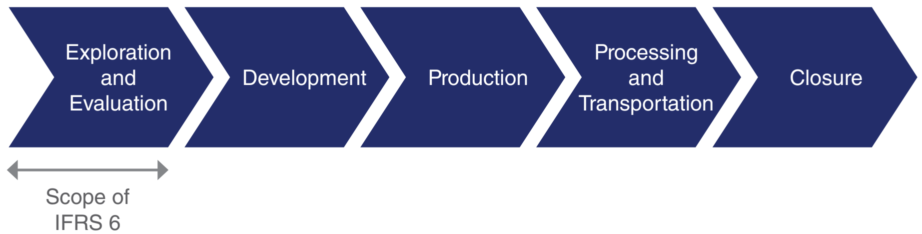
What are extractive activities?

Extractive activities include the exploration, evaluation, development and production of natural non-regenerative resources such as minerals, oil and natural gas.

Extractive activities have distinct phases:

- *exploration and evaluation*—acquisition of legal rights, exploratory drilling and feasibility studies;
- *development*—development drilling, development of mine sites and construction of facilities;
- *production*—extraction of resources;
- *processing and transportation*—processing, treatment, storage and transportation; and
- *closure*—rehabilitating the mine or production site, plugging of wells and removal of infrastructure.

Figure 1—Phases of extractive activities



Background *continued ...*

What does IFRS 6 require?

IFRS 6 focuses only on exploration and evaluation expenditure. It does not apply to expenditure incurred:

- before the entity has obtained the legal rights to explore a specific area; or
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

IFRS 6 requires an entity to:

- develop its own accounting policy specifying which exploration and evaluation expenditure is recognised as an asset. IFRS 6 provides examples, but not an exhaustive list, of expenditure that might be capitalised as exploration and evaluation assets. It also provides an exemption from applying paragraphs 11–12 of IAS 8 to that accounting policy.
- assess exploration and evaluation assets for impairment. IFRS 6 provides a non-exhaustive list of impairment indicators. If such an indicator is identified, the entity is required to test those assets for impairment applying IAS 36 *Impairment of Assets*. Exploration and evaluation assets are allocated to cash-generating units or groups of cash-generating units for the purpose of assessing those assets for impairment.
- disclose information that identifies and explains the amounts recognised in the entity's financial statements arising from its exploration and evaluation activities, including its accounting policies for the recognition of exploration and evaluation assets.

Evidence gathered

From 2018 to 2023, the IASB gathered evidence to help it decide whether to amend or replace IFRS 6 or consider making changes to improve other IFRS Accounting Standards applying to extractive activities.

The IASB obtained feedback from a range of stakeholders, including:

- investors and other users of financial statements (including an investor survey);
- preparers of financial statements;
- auditors;
- regulators;
- national and regional accounting standard-setters, including national standard-setters that helped to develop the Discussion Paper; and
- the IASB's advisory bodies:
    - the Accounting Standards Advisory Forum;
    - the Capital Markets Advisory Committee; and
    - the Emerging Economies Group.

Feedback gathered in numbers

Over 80 meetings with stakeholders.

Feedback from global organisations, regional groups from Africa, Asia-Oceania, Europe and Latin America and 17 individual jurisdictions.

The IASB reviewed:

- academic literature;
- accounting and regulatory requirements on exploration and evaluation expenditure in other jurisdictions that differ from the requirements in IFRS 6;
- accounting policies applied in practice by approximately 1,500 listed entities in the extractives industry from many jurisdictions;
- information about exploration and evaluation expenditure and activities disclosed in annual reports by 85 of those entities; and
- reserve and resource classification systems and regulatory requirements for the disclosure of reserve and resource information in jurisdictions with large extractive industries.

The IASB discussed the project at 15 meetings.

Research findings—Matters within the scope of IFRS 6

Accounting for exploration and evaluation expenditure

Stakeholder feedback showed that IFRS 6 has allowed entities to continue to apply diverse accounting policies to exploration and evaluation expenditure. The feedback supports recent academic and the IASB's own research on the subject. Diversity mainly arises from entities making decisions about:

- whether to capitalise exploration and evaluation expenditure as assets;
- which types of expenditure are capitalised;
- when to start and stop capitalising that expenditure; and
- what unit of account is applied to that expenditure (such as whether to aggregate expenditure by oil well, licence area or country).

The IASB did not find evidence of a significant financial reporting problem that could be addressed by standard-setting, despite evidence of diversity, some of which could be explained by an entity's particular circumstances. The extractives industry has well-established accounting practices that predate IFRS 6 and the research identified some industry trends and evidence of alignment of accounting practices between similar entities.

Many investors and other users of financial statements said that information about exploration and evaluation expenditure is important but most suggested that diversity in accounting for exploration and evaluation expenditure is manageable. Many suggested that instead of developing improved recognition and measurement requirements, the IASB should consider expanding the disclosures required by entities about their exploration and evaluation expenditure and activities.

Is how an entity accounts for its exploration and evaluation expenditure material information for users of financial statements?

Stakeholder feedback showed that an entity's size and activities usually determine whether diversity in the accounting policies used for exploration and evaluation expenditure affects users of financial statements. For example:

- exploration and evaluation expenditure is typically not material for *large entities primarily engaged in production activities.*
- accounting policies and related information tend to be material for users of financial statements of *mid-sized entities engaged in exploration and production activities,* especially for entities with significant exploration programmes.
- users of financial statements of *small entities primarily engaged in exploration and evaluation activities* are typically more interested in information about the nature and results of those activities, the funding of the entity and its liquidity, and tend to focus on the statement of cash flows. Therefore, whether a small entity capitalises or expenses its exploration and evaluation expenditure is typically not material information.

Research findings—Matters within the scope of IFRS 6 *continued ...*

Overall, the research findings showed that there is diversity in accounting policies entities apply to exploration and evaluation expenditure. Although the IASB acknowledges this diversity is not ideal, the costs of developing and implementing improved recognition and measurement requirements to reduce that diversity are likely to outweigh the benefits. Therefore, the IASB decided not to make any changes. This means the exemption from paragraphs 11–12 of IAS 8 remains (see page 4).

Information disclosed about exploration and evaluation expenditure and activities

The IASB identified three areas to further explore whether more useful information could be disclosed about:

- accounting policies applied to exploration and evaluation expenditure to improve transparency;
- cumulative exploration and evaluation expenditure to improve comparability of entities applying different accounting policies; and
- risks and uncertainties associated with exploration and evaluation expenditure and activities to improve assessments of future cash flows.

The IASB's research identified aspects of entities' accounting policies that are sometimes unclear. The IASB explored whether information about the nature and type of exploration and evaluation expenditure, the unit of account used to aggregate expenditure and when capitalisation starts and stops, would be useful for users of financial statements. This information could provide transparency of features of accounting policies for exploration and evaluation expenditure that contribute to the diversity of those policies. However, the IASB's research found that the benefits of such additional information would likely be marginal, because information about an entity's accounting policy applied to exploration and evaluation expenditure is often not material to users of financial statements (see page 7).

Research findings—Matters within the scope of IFRS 6 *continued ...*

The IASB also noted that IFRS 6 requires an entity to disclose its accounting policies for exploration and evaluation expenditure, including the recognition of exploration and evaluation assets. The IASB expects that other requirements—for example, amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* in 2021, and requirements developed in its Primary Financial Statements project—should lead to entities providing more transparent information about how they account for exploration and evaluation expenditure when that information is material.

The IASB also decided, based on its research, that there was not a compelling case for standard-setting for the other disclosure suggestions.

Preparers expressed concerns about the costs and complexity of providing information about their cumulative spend on exploration and evaluation activities and whether this would improve comparability, citing a lack of comparability between the activities—for example, that the costs associated with deepwater oil and gas exploration are significantly different from the costs of onshore exploration.

Stakeholders had mixed views on the usefulness of information about the risks and uncertainties associated with exploration and evaluation expenditure and activities. Such information is often already provided outside an entity's financial statements. Stakeholders also questioned whether such information belongs in financial statements, and why it should be required for these activities and not others—for example, for research and development activities.

Research findings—Other matters

Stakeholders raised other matters during the research project relating to reserve and resource information and applying other IFRS Accounting Standards to extractive activities.

Reserve and resource information

Many entities in the extractives industry provide information about their reserves and resources outside their financial statements.

Many investors suggested that information about reserves and resources is important for forecasting and valuation modelling and analyses. Reserve and resource information can also be an important input in determining financial statement items such as depreciation, impairment losses and decommissioning provisions. Many stakeholders therefore suggested that the IASB consider whether to develop requirements for entities to disclose reserve and resource information in financial statements.

Reserve and resource information is similar to other important information for users of financial statements of entities in other industries that is generally not required to be disclosed in financial statements—for example, details of the research pipeline of drugs for a pharmaceutical company. Many stakeholders said requiring the disclosure of reserve and resource information is beyond the remit of the IASB and of financial statements.

In most jurisdictions with large extractive industries, regulators already require the disclosure of reserve and resource information. Most investors suggested they obtain sufficient reserve and resource information for the majority of entities they follow. The IASB was also concerned that any new disclosure requirements for reserve and resource information could diverge from local regulations, creating confusion for users of financial statements. Stakeholders also highlighted significant costs of auditing reserve and resource information in financial statements.

Overall, the IASB did not find sufficient evidence to develop new requirements for the disclosure of reserve and resource information in financial statements.

Research findings—Other matters *continued ...*

What are ‘reserves’ and ‘resources’?

‘Reserves’ generally refers to the quantity of minerals or oil and gas estimated to be economically recoverable (that is, reserve quantities are an estimate of the aggregate future production of minerals or oil and gas).

‘Resources’ generally refers to the quantity of minerals or oil and gas discovered, but not yet capable of being classified as reserves.

Reserves and resources are generally classified into sub-categories, such as proved and probable reserves, according to the amount of confidence associated with the quantity estimates.

Reserve and resource reports contain scientific and technical information and are usually prepared by geologists and other experts (such as metallurgists and engineers).

Matters arising from applying other IFRS Accounting Standards

Many stakeholders identified challenges in applying other IFRS Accounting Standards to extractive activities that are not in the scope of IFRS 6. For example, stakeholders identified challenges in applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to decommissioning provisions.

However, the matters highlighted would also be relevant to entities in other industries, so additional requirements or guidance to address them might have wider implications or unintended consequences.

The IASB therefore decided not to develop new or amended requirements for matters outside the scope of IFRS 6 relating to extractive activities.

Summary of the IASB's decisions

The IASB decided not to explore developing:

- new or amended recognition and measurement requirements for exploration and evaluation expenditure;
- new or amended disclosure requirements for exploration and evaluation expenditure and activities;
- requirements for the disclosure of reserve and resource information; or
- new or amended requirements for matters outside the scope of IFRS 6 relating to extractive activities.

The IASB therefore decided to retain IFRS 6. The IASB thanks its stakeholders for their valuable contributions to this project, which helped the IASB to decide that there was no significant financial reporting problem requiring standard-setting based on that wealth of evidence. This has been important work to complete and the IASB decided that, overall, the work on developing the Discussion Paper published in 2010 and the work in this research project from 2018 to 2023 fulfilled the comprehensive review of the accounting for extractive activities that the IASB envisaged when it issued IFRS 6.

Separately, the IASB decided to add a new project to its maintenance project pipeline to remove, as part of its next volume of *Annual Improvements to IFRS Accounting Standards*, the word 'Temporary' from the heading of the section in IFRS 6 that exempts an entity from applying some of the requirements in IAS 8 to its accounting policies for exploration and evaluation expenditure. That minor amendment would clarify that the exemption is no longer considered temporary.

Important information

The Project Summary has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views in this document are those of the staff who prepared this document and are not the views or the opinions of the IASB and should not be considered authoritative in any way. The content of this Project Summary does not constitute any advice.

Stay informed

To stay up to date with the latest developments and to sign up for email alerts, please visit our [website].

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org