

STAFF PAPER

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IASB Meeting

Project	Extractive Activities		
Paper topic	Definitions of reserves and resources		
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Objective

1. The purpose of this paper is to determine:
 - (a) if there have been any significant changes to the definitions of minerals and oil and gas reserves and resources considered in the 2010 *Extractive Activities* Discussion Paper (Discussion Paper); and
 - (b) if so, whether the changes affect the project team's considerations and proposals as detailed in Chapter 2 of the Discussion Paper.
2. There are no questions for the Board in this Agenda Paper, but the staff would welcome any comments from Board members.

Overview

3. This paper is structured as follows:
 - (a) Summary (paragraphs 4–5);
 - (b) Background (paragraphs 6–10);
 - (c) Reserve and resource classification systems (paragraphs 11–25);
 - (i) CRIRSCO (paragraphs 16–18);
 - (ii) PRMS (paragraphs 19–20);
 - (iii) SEC (paragraphs 21–23);

- (iv) UNFC (paragraphs 24–25);
- (d) 2018 *Conceptual Framework for Financial Reporting* (paragraphs 26–27);
- (e) Appendix A—Extracts from *October 2010 Agenda Paper 7A Comment letter summary*.

Summary

4. Staff observe that improvements have been made to the reserve and resource classification systems that were considered in the Discussion Paper. These improvements do not affect the project team’s considerations or proposals in the Discussion Paper and have been summarised in the staff analysis in paragraphs 16–25.
5. However, staff note that the 2018 *Conceptual Framework for Financial Reporting* (2018 *Conceptual Framework*) provides guidance about the scope of general purpose financial reporting which, when considered, may affect the proposals (see paragraphs 26–27).

Background

6. In Chapter 2 of the Discussion Paper, the project team proposed that the definitions of reserves and resources that should be used in a standard on extractive activities are:
 - (a) the mineral reserve and resource definitions established by the Committee for Minerals Reserves International Reporting Standards (the CRIRSCO Template). The Discussion Paper notes that the CRIRSCO Template forms the basis of market regulator disclosure requirements in most jurisdictions that have formalised mineral reserve and/or resource disclosure requirements (excluding the USA); and
 - (b) the oil and gas reserve and resource definitions in the Petroleum Resource Management System (PRMS), as established by the Society of Petroleum Engineers Oil and Gas Reserves Committee (SPE OGRC)

in conjunction with other industry bodies. The Discussion Paper noted that the PRMS is used by many oil and gas entities for internal resource management and it also corresponds closely to market regulator disclosure requirements in most jurisdictions that have formalised oil and gas reserve and/or resource disclosure requirements (including Canada and the USA).

Question in the Discussion Paper

7. Question 3 of the Discussion Paper asked respondents the following:

Question 3 – Definitions of minerals and oil and gas reserves and resources

In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Minerals Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers Oil and Gas Reserves Committee (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

Summary of feedback received on the Discussion Paper

8. Most respondents to the Discussion Paper supported the use of these definitions (see paragraph 6) for the reasons mentioned in the Discussion Paper—that is, they have wide acceptance within the industry and they are broad and comprehensive classification systems. In addition, a joint CRIRSCO-SPE working group confirmed that broad equivalence exists between these two sets of industry definitions, and therefore it should provide a basis for building a single financial reporting model across the minerals and oil and gas industries (see paragraphs 2.24–2.45 of the Discussion Paper).
9. The main concerns identified with those definitions were:
- (a) how those definitions could be incorporated into a standard on extractive activities;
 - (b) whether application guidance would be needed to supplement the PRMS and ensure that it is consistently applied; and

- (c) the economic assumptions that should be used in preparing reserve estimates.
10. Detailed feedback on incorporating definitions into a standard on extractive activities and the need for application guidance has been included at Appendix A¹.

Reserve and resource classification systems

11. As explained in paragraph 2.4 of the Discussion Paper, the basic concepts of a ‘reserve’ and a ‘resource’ are:
- (a) reserves generally refer to the quantity of minerals or oil and gas that is estimated to be economically recoverable (ie reserve quantities are an estimate of the aggregate future production of minerals or oil and gas);
 - (b) resources generally refer to the quantity of minerals or oil and gas that has been discovered but is not yet capable of being classified as a reserve; and
 - (c) reserves and resources are generally classified into subcategories according to the level of confidence associated with the estimate of the reserve or resource quantities.
12. Complete reserve and resource information for an entity would relate to all phases of extractive activities—exploration, evaluation, development and production—consistent with the scope of the Discussion Paper.
13. In paragraph 2.5 of the Discussion Paper, the project team explains that the major differences in the various definitions of reserves and resources relate to the scope and specificity of the definitions and also to the assumptions that are used in estimating and classifying reserves and resources.
14. Paragraphs 2.7 and 2.8 of the Discussion Paper summarise the financial reporting needs of users. Primarily, the project team considered that in order for definitions of reserves and resources in an extractive activities standard to be useful, that standard would need to have definitions of minerals and oil and gas reserves and

¹ See [October 2010 Agenda Paper 7A](#)

resources that are consistent and compatible with financial reporting methodologies and requirements.

15. Internationally, the project team identified that the most prominent definitions of minerals and oil and gas reserves and resources being used for financial and other public reporting purposes were:
 - (a) mineral reserves and resources definitions based on the CRIRSCO Template—see paragraphs 16–18;
 - (b) PRMS—see paragraphs 19–20;
 - (c) the definitions established by the US Securities and Exchange Commission (SEC)—see paragraphs 21–23—which are located in:
 - (i) Regulation S-X, Rule 4-10 *Financial accounting and reporting for oil and gas producing activities pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975*; and
 - (ii) SEC Industry Guide 7—*Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations*;
 - (d) the *United Nations Framework Classification for Fossil Energy and Mineral Resources* (UNFC) which is a joint initiative incorporating the professional efforts of CRIRSCO, SPE/WPC/AAPG/SPEE and others with strong stakeholder participation. The UNFC is seeking to harmonise the classification of reserves and resources to meet four defined information needs—being financial reporting, business process management, government resource management and global energy (and mineral) studies—see paragraphs 24–25.

CRIRSCO

16. Staff note that there have been improvements to the CRIRSCO Template since 2010. However, these do not affect the considerations or proposals in the Discussion Paper.
17. The CRIRSCO Template appears to be updated on a regular basis to provide additional guidance and clarification. In particular, in October 2012 CRIRSCO

published 'Standard Definitions' which are fifteen definitions that were then incorporated into the CRIRSCO Template in November 2013. These definitions have since been incorporated into the Codes and Standards used by most CRIRSCO members. A further CRIRSCO Template update is currently in progress.

18. In addition, CRIRSCO has increased their membership which now includes the following jurisdictions²:

- (a) Australasia;
- (b) Brazil*;
- (c) Canada;
- (d) Chile;
- (e) Columbia*;
- (f) Europe;
- (g) India*;
- (h) Indonesia*;
- (i) Kazakhstan*;
- (j) Mongolia*;
- (k) Russia*;
- (l) South Africa;
- (m) Turkey*; and
- (n) United States of America.

** joined since 2010*

² The combined value of mining companies listed on the stock exchanges of these countries accounts for more than 80% of the listed capital of the mining industry (www.criusco.com/background.asp)

PRMS

19. Staff have not identified any changes to the PRMS since 2010 which would affect the project team's considerations or proposals in the Discussion Paper.
20. The PRMS was updated in 2018 to address points of clarification and incorporate stakeholder feedback and concerns.

SEC

21. Staff have identified improvements to both the Regulation S-X, Rule 4-10 and SEC Industry Guide 7 since 2010.
22. Changes to the SEC regulation and industry guide were adopted in 2008 and became effective following the publication of the Discussion Paper. These updates address:
 - (a) changes to oil and gas definitions in Rule 4-10 of Regulation S-X—the definitions have been updated to consider average price, first-of-the-month pricing, reliable technologies, non-traditional resources, eliminating the 'certainty' test and supporting other definitions;
 - (b) the creation of a new 'subpart' in the regulation/guidance to consolidate the industry specific disclosure requirements for oil and gas companies;
 - (c) management discussion and analysis guidance;
 - (d) ceiling test limitation for capitalised costs under the full cost method;
and
 - (e) accounting treatment and retroactive revision.
23. In October 2018 the SEC announced it was adopting amendments to Item 102 of Regulation S-X and SEC Industry Guide 7 more closely aligning these with the CRIRSCO Template.

UNFC

24. The UNFC is still working towards harmonisation of the classification of reserves and resources. Staff have not identified any changes to the UNFC since 2010

which would affect the project team's considerations and proposals in the Discussion Paper.

25. Since 2010, additional bridging documents have been issued between UNFC-2009 and the revised CRIRSCO Template (2013 and 2019), the Oil and Fuel Gas Reserves and Resources Classification of the Russian Federation of 2013, and the Chinese Solid Minerals and Chinese Petroleum (2018).

2018 Conceptual Framework for Financial Reporting

26. Consistent with the 2010 Conceptual Framework for Financial Reporting, the 2018 *Conceptual Framework* provides guidance on the scope of general purpose financial reports. In particular, both the 2010 and 2018 *Conceptual Frameworks* clarify that the objective of general purpose financial reporting is to provide *financial* information about the reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. In particular, paragraph 1.2 of the 2018 *Conceptual Framework* states that:

... Those decisions involve decisions about:

- (a) buying, selling or holding equity and debt instruments;
- (b) providing or settling loans and other forms of credit;
or
- (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

27. Consequently, staff observe that the proposals in relation to including, or referring to, reserve and resource classification systems or definitions within an IFRS Standard may fall outside the scope of general purpose financial reporting as defined in the 2018 *Conceptual Framework* (see also *Agenda Paper 19A*).

Appendix A—Extracts from *October 2010 Agenda Paper 7A Comment letter summary*

- A1. Most respondents supported the use of these definitions for the reasons mentioned in the Discussion Paper—that is, they have a wide acceptance within the industry, and they are broad and comprehensive classification systems. In addition, a joint CRIRSCO-SPE working group confirmed that broad equivalence exists between these two sets of industry definitions, and therefore it should provide a basis for building a single financial reporting model across the minerals and oil & gas industries.
- A2. The main concerns identified with those definitions were:
- a) how those definitions would be incorporated into an IFRS;
 - b) whether application guidance is needed supplementing the PRMS to ensure that it is consistently applied; and
 - c) the economic assumptions that should be used in preparing reserve estimates.

Incorporating definitions into an IFRS

- A3. The following table summarises respondents’ views on approaches for incorporating the definitions of reserves and resources into a future IFRS:

How to include definitions into an IFRS	Concerns identified by respondents
<p>Include an ambulatory reference to those definitions.</p> <p>For example, the IFRS might say “a reserve is a mineral reserve as defined by the CRIRSCO Template (as amended from time to time) or a reserve as defined by the PRMS (as amended from time to time)”.</p>	<ul style="list-style-type: none"> • some jurisdictions that incorporate IFRS into company law and those laws prohibit ambulatory references being made to other pronouncements; • by inserting an ambulatory reference to these definitions, the requirements of the IFRS could theoretically change when the CRIRSCO Template or the PRMS is updated even though the Board may not have conducted any due process; • it is inappropriate for the Board to delegate some of its Standard-setting authority to third parties; and • respondents queried whether the due processes followed by CRIRSCO and the SPE OGRC are sufficiently robust, independent and transparent.
<p>Include a static reference to those definitions.</p> <p>For instance, by specifying that a reserve is defined in</p>	<ul style="list-style-type: none"> • changes to the CRIRSCO Template and the PRMS would require the Board to initiate a separate project (and undertake its own due

<p>accordance with a specific version of the CRIRSCO Template or PRMS that has been published (eg the 2007 version of the PRMS).</p>	<p>process) so that the definitions in the IFRS and those used by industry remain the same; and</p> <ul style="list-style-type: none"> • different reserves estimates might need to be prepared by entities if the CRIRSCO Template and PRMS definitions were updated but the Board did not update the corresponding definitions in the IFRS.
<p>Include specific versions of the CRIRSCO Template and the PRMS as appendices to the IFRS.</p>	<ul style="list-style-type: none"> • same concerns as for static referencing; and • the CRIRSCO Template and the PRMS are lengthy documents that contain too much detail for appendices to an IFRS.

- A4. In response to those concerns, some respondents suggested that the Board should define the main principles of a reserve and a resource in the IFRS and let entities use their judgement to determine which industry definitions are consistent with those main principles. They suggest that the entity should explain in the notes to the financial statements which definitions they have used.
- A5. Another respondent suggested that the IFRS should refer instead to the UNFC. That respondent explained:

It is noted that a number of the submissions have expressed concerns over the use of “third party” reserve/resource definitions... As a consequence of the concerns, there is support for the IASB to develop its own principles-based definitions. This would be unnecessary, as the same objective was precisely the basis for developing the definitions now found in UNFC-2009. The UNFC-2009 definitions are generic (not commodity- or industry-specific), are written in plain (non-technical language) and are consistent with both the CRIRSCO Template and PRMS. Consequently, these definitions could be directly incorporated into an IFRS should it be decided that internal (“hard-wired”) definitions were preferable to providing a reference to one or more external systems. (CL#87)

Need for application guidance

- A6. Some respondents commented that application guidance would need to be provided to ensure that the PRMS is applied consistently. Some respondents suggested that this guidance should be based on the comprehensive guidance contained in the Canadian Oil and Gas Evaluation Handbook.
- A7. Other respondents suggested that IFRS should instead adopt the SEC’s oil and gas reserve definitions that were revised in 2008. Those definitions are based on the PRMS but contain specific requirements that are intended to ensure greater consistency in the preparation and disclosure of reserve estimates.
- A8. In the minerals industry, the CRIRSCO Template includes a requirement that reserves and resources estimates prepared for public disclosure purposes must be

prepared by a competent person. A competent person must have reserve estimation experience and expertise that is relevant for the estimate being prepared as well as be a member of relevant professional body that has enforceable rules of conduct. The competent person concept is currently used in many mining jurisdictions as part of the system for disclosing reserve estimates to the capital markets. Responses received on the Discussion Paper also indicated support for using the competent person concept as part of international financial reporting.