



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)**

**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 16 October 2006, London

**Project:** Extractive Activities research project

**Subject:** Cover note (Agenda Paper 4)

---

#### **Overview**

1. A key decision point for the extractive activities research project is to consider whether or not fair value might be suitable as:
  - (a) the measurement objective for minerals and oil & gas reserves and resources assets that are recognised on the balance sheet; or
  - (b) a disclosure objective for minerals and oil & gas reserves and resources.
2. This agenda paper package presents the outcomes of the extractive activities research project team's research into the fair value measurement of minerals and oil & gas reserves and resources. On the basis of this research, the research project team<sup>1</sup> is seeking guidance from the Board as to whether or not fair value should continue to be considered as a potential measurement or disclosure objective for reserves and resources.

---

<sup>1</sup> The extractive activities research project team comprises representatives from the national standard setters from Australia, Canada, Norway and South Africa.

### *Nature of the fair value measurement assessment*

3. This agenda paper package assesses the suitability of fair value measurement of reserves and resources in absolute terms rather than by comparing the relative decision-usefulness of fair value information relating to reserves and resources with historical cost information relating to reserves and resources. This approach has been adopted because the research project team's analysis has identified concerns regarding the representational faithfulness and the costs and corresponding benefits of fair value measurement of reserves and resources. The effect of these concerns – assuming the Board concurs with the research project team's analysis – would be that the fair value measurement of reserves and resources either:
- (a) fails to provide decision-useful information;<sup>2</sup> or
  - (b) provides limited decision-useful information, the preparation of which cannot be justified on cost-benefit grounds.

Consequently, in either case, the fair value measurement of reserves and resources could be assessed to be unsuitable as a basis for measurement or disclosure without first having to compare the fair value of reserves and resources to other measurement alternatives (e.g. historical cost).

### **Guidance requested**

4. Board members are asked to advise whether they:
- (a) (tentatively) agree with the research project team's analysis that fair value measurement of reserves and resources is not suitable for measurement or disclosure purposes – in which case, the research focus will shift to exploring historical cost measurement models and other reserves and resources disclosure options; or
  - (b) consider that further research on fair value measurement of reserves and resources is required, including possibly 'roadtesting' the preparation of fair value estimates of reserves and resources to better understand the nature and extent of the valuation challenges involved; or

---

<sup>2</sup> This is not necessarily suggesting that the use of fair value measurement of reserves and resources in the context of business combinations or calculating recoverable amount for impairment testing purposes is representationally unfaithful. This is discussed further at Agenda Paper 4D.

- (c) consider that fair value measurement of reserves and resources has the potential to be a suitable basis for measurement or disclosure of reserves and resources – in which case, the research focus will shift towards identifying which recognition and measurement model is preferred on both decision-usefulness and cost-benefit grounds – that is, either a fair value model or a historical cost model (refer further discussion under the heading ‘Background’). The results of this research would be presented to the Board at a subsequent meeting.

### **Overview of the agenda paper package**

- 5. The assessment of the suitability of fair value as a measurement and/or a disclosure objective in the financial reporting of a mining or oil & gas company’s reserves and resources is made in a series of steps in the following agenda papers.
  - (a) Agenda Paper 4A identifies which valuation techniques would be used to estimate the fair value of reserves and resources.
  - (b) Agenda Paper 4B identifies the asset/unit of account comprising mineral or oil & gas reserves and resources that is considered most suitable for fair value measurement purposes.
  - (c) Agenda Paper 4C considers how the fair value of reserves and resources would be determined in the context of the fair value hierarchy in FAS 157 *Fair Value Measurements*.
  - (d) Agenda Paper 4D assesses whether the fair value of the reserve and resource asset meets the qualitative characteristics of decision-useful financial reporting information, as outlined in the IASB’s recent discussion paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* (July 2006).
  - (e) Agenda Paper 4E considers previous conclusions on fair value as a measurement objective that have been reached by standard-setters on similar and related topics. This includes decisions made by the:

- (i) FASB and SEC in relation to oil & gas reserves– specifically, FAS 19 *Financial Accounting and Reporting by Oil and Gas Producing Companies*, FAS 69 *Disclosures about Oil and Gas Producing Activities* and various SEC Accounting Series Releases; and
- (ii) IASC on accounting standards dealing with:
  - (A) agriculture; and
  - (B) investment properties.
- (f) Agenda Paper 4F briefly outlines possible alternatives to the fair value measurement of reserves and resources that could be explored further by the research project.

## **Background**

- 6. Financial reporting issues associated with minerals and oil & gas reserves and resources are the primary focus of the research project (and, therefore, of the discussion paper that will be published at the conclusion of the project). In summary, this involves considering:
  - (a) the definition of minerals and oil & gas reserves and resources (this is discussed further at paragraphs 11-15 below);
  - (b) when an asset that includes reserves and resources should be recognised as an asset in the financial statements (i.e. in accordance with the criteria in the IASB *Framework for the Preparation and Presentation of Financial Statements*);
  - (c) how reserve and resource assets that are recognised in the financial statements should be measured on initial recognition – alternatives include:
    - (i) the historical cost of acquisition and/or discovery (this might be historical cost determined using a successful efforts, area of interest, full cost, or other method);
    - (ii) the fair value of the reserve and resources; or
    - (iii) some other basis;
  - (d) how reserve and resource assets that are recognised in the financial statements should be measured in periods subsequent to initial

recognition, including issues such as remeasurement, impairment and amortisation;

- (e) whether costs incurred prior to the recognition of a reserve and resource in the financial statements should all be expensed or if some should be capitalised; and
  - (f) the information on reserves and resources that should be disclosed in financial statements.
7. Much of the present research focus has been restricted to ascertaining whether a fair value estimate of reserves and resources is capable of being suitable as a measurement or disclosure objective. The research has not yet considered the form or features of either:
- (a) the fair value measurement model – for instance:
    - (i) when the reserve and resource assets would initially be recognised and measured at fair value (noting that the point of initial recognition could be different under fair value and historical cost models); and
    - (ii) how changes in fair value would be reported (noting that this decision might be influenced by the IASB’s performance reporting project); and
  - (b) fair value disclosures – for instance:
    - (i) how the disclosures would be presented, both in terms of format and the level of aggregation (e.g. at the property level, regional level or portfolio level);
    - (ii) should a reconciliation of period-to-period changes in fair value be disclosed; and
    - (iii) what supporting information and assumptions should be disclosed.
8. The guidance the research project team is seeking from the Board will influence whether research to this level of specificity is required. However the research project team is adopting a different approach to researching historical cost models for reserves and resources. The research project team’s intention is to undertake a detailed analysis of the strengths and weaknesses of the historical

cost variants available (e.g. full cost, successful efforts, area of interest, expensing) irrespective of the Board's view on the fair value measurement of reserves and resources. This is because the research project team considers that it is essential that the discussion paper provides a thorough analysis of the accounting and disclosure options that are potentially suitable as measurement and disclosure objectives. In contrast to fair value models, historical cost models are viewed by many in industry as being suitable for measurement and disclosure purposes. Therefore, a comprehensive analysis of historical cost models should ensure that the discussion paper can provide the Board with a solid platform upon which to engage with industry and users on accounting for extractive activities.

9. [Paragraph omitted from observer note]
10. [Paragraph omitted from observer note]

#### **Other research activities**

11. The research project team's other research focus relates to the definitions of minerals and oil & gas reserves and resources. In July 2005, at the research project's second education session, the Board considered comparisons between:
  - (a) the major minerals and oil & gas industry definitions of reserves and resources;
  - (b) those industry definitions and the SEC's minerals and oil & gas definitions; and
  - (c) those definitions with some key accounting principles.

Differences between the definitions that were identified included differences in specificity, methodologies (e.g. economic assumptions, confidence levels), language, and the scope of the definitions. Although some of the differences identified appear to be a consequence of the physical differences between mineral and oil & gas deposits, other differences seem attributable to the fact that the definitions were developed and updated independently of each other in each industry.

12. The July 2005 education session also included a discussion on some of the possible approaches for defining reserves and resources for financial reporting purposes. At that session, IASB members tentatively indicated support for

exploring the use of a generic definition of ‘resources’ for recognition purposes (which may be on either a historical cost or a fair value basis) that encompasses minerals and oil & gas reserves and resources. Under this approach, disclosures supporting the recognition and measurement of ‘resources’ (as generically defined) would be based on or be similar to existing reserves and resources definitions used in the industries. IASB members also indicated to the minerals and oil & gas industry representatives present that the industries should consider converging elements of their definitions that perhaps need not be different between the industries (e.g. price and economic assumptions used to determine whether a deposit is economic, the degree of confidence associated with different categories of reserves and resources). Achieving convergence between the definitions is expected to be beneficial to the development of an IFRS that applies to mineral and oil & gas reserves and resources.

13. Following a written request from the IASB Chairman, the minerals and oil & gas industries – through the Society of Petroleum Engineers Oil and Gas Reserves Committee (SPE) and the minerals industry’s corresponding international reserve and resource definitions committee, the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) – have agreed to review their definitions of reserves and resources to identify opportunities for refining the industry-based definitions to potentially improve their suitability for application in financial reporting as well as remaining suitable for other industry-based uses. These refinements may be in the form of elements of the definitions converging or alternatively involve the “mapping” of one set of definitions to the other set. The project team together with representatives from the International Organization of Securities Commissions and the United Nations Economic Commission for Europe’s Committee on Sustainable Energy are participating in this review as observers.
14. Members of the CRIRSCO/SPE Convergence Team have completed a comparison of the petroleum and minerals reserves and resources classification systems, and from this a number of topics have been identified as potential areas for convergence. Some further discussion has taken place on the prospects for convergence in these areas, and these discussions will continue when the research project team meets with the CRIRSCO/SPE Convergence Team on 12 October 2006.

15. If time permits, the research project team can provide the Board with a verbal update on the outcomes from the 12 October 2006 meeting at this Board meeting. Following this meeting with the CRIRSCO/SPE Convergence Team, the research project team should have a clearer idea of the likely timeframe for completion of the convergence review. The research project team intends to formally report back on the outcomes of this review at a future Board meeting.