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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **19 September 2008, London**

Project: **Extractive Activities research project**

Subject: **Drafting the Discussion Paper (Agenda Paper 15C)**

Purpose

1. This paper considers issues relevant to the drafting of the research project's Discussion Paper and suggests some questions that could be included in the Invitation to Comment section of the Discussion Paper.

Timing

2. The project team plans to have the Discussion Paper completed by the end of 2008. This meeting is the last meeting that the project team intends to discuss the research project with the Board prior to the release of the Discussion Paper.

Content of the Discussion Paper

3. It is proposed that the Discussion Paper will present project team views only. This is consistent with the use of Board education sessions to progress the research project, whereby the Board's role in considering the key project issues has been to provide guidance and feedback to the project team rather than to reach preliminary views on

those issues. Accordingly, the direction of the Discussion Paper – and the views of the project team – are influenced by comments provided by the Board throughout the seven education sessions (including this one) that have been held on the research project. (An outline of those education sessions is provided in Appendix A.)

4. The approach adopted for publishing the Management Commentary (MC) Discussion Paper is suggested as the template for the extractive activities research project to follow. Like the extractive activities research project, the MC Discussion Paper was prepared for the Board by a group of staff from national standard setters and it did not include Board member preliminary views. Consistent with this approach, it is proposed that the Discussion Paper should:

   (a) be published as an IASB document (i.e. with IASB logo and with the same style and layout as other IASB Discussion Papers), but clearly identifying that:

      (i) the content of the Discussion Paper was prepared by the project team and represents the project team's views only; and

      (ii) the project team's views do not necessarily reflect the views of the Board or the project team's employers (being the national standard setters of Australia, Canada, Norway and South Africa);

   (b) include some introductory remarks from the Board that:

      (i) explains why the research project was undertaken and other relevant background information; and

      (ii) lists the questions on which the Board is inviting comments from constituents. (See paragraph 8 below for a discussion on possible questions to include in the invitation for comment section of the Discussion Paper.)

Question for the Board: *Do you agree with the approach to the Discussion Paper in paragraphs 3 and 4?*

Scope of the research project

5. It is proposed that the Discussion Paper will address all issues that formed part of the scope of the research project. The scope of the project, as approved in April 2004, is to

consider the unique issues associated with accounting for upstream activities, comprising the search for, finding, and extraction of minerals or oil & gas. The scope can also be described as considering the financial reporting issues associated with minerals and oil & gas reserves and resources (including the exploration for reserves and resources). The project scope therefore includes determining:

(a) definitions of reserves and resources for use in the accounting for and disclosure of reserves and resources;

(b) based on the criteria in the IASB *Framework for the Preparation and Presentation of Financial Statements* (and the proposed revisions to the Framework), what are the assets related to the exploration for and the development of reserves and resources that should be recognised in financial statements and when should they be recognised;

(c) how those assets 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) fair value; or

  (iii) some other current value basis;

(d) how those assets should be measured in periods subsequent to initial recognition, including issues such as remeasurement, impairment and amortisation; and

(e) the information on extractive activities, including reserves and resources information, that should be disclosed in financial statements.

6. The Discussion Paper will also address whether the same principles and requirements should be applied equally to both minerals and oil & gas.

Outline of Discussion Paper

7. A basic outline of the Discussion Paper chapters is provided at Appendix B.

Invitation to comment

8. The project team proposes that comments be invited on the following topic areas, all of which represent critical building blocks of a future IFRS:

   (a) scope of extractive activities;

   (b) approach for considering accounting and disclosure issues;

   (c) definitions of minerals and oil & gas reserves and resources;

   (d) minerals or oil & gas asset recognition model;

   (e) minerals or oil & gas asset measurement model; and

   (f) disclosure of information relevant to understanding an entity's extractive activities.

Question 1 – Scope of extractive activities

Should the scope of an extractive activities IFRS only include upstream activities for minerals, oil, and natural gas? Are there other similar activities that should also fall within the scope of an IFRS that is being developed for the extractive industries? If so, please explain what other activities should be included in scope and why.

Rationale for asking this question

9. Limiting the scope to upstream activities[1] is consistent with the Board's philosophy of developing accounting standards for activities or transactions rather than for industries. Upstream activities are considered to be sufficiently different from other activities to warrant separate consideration due to, among other things:

[1] Upstream activities are exploring for, finding, acquiring and developing minerals or oil & gas deposits up to the point that the minerals or oil & gas are first capable of being sold or used, even if the entity intends to process them further. This definition is based on paragraph 1.16 of the IASC Steering Committee Issues Paper on *Extractive Industries: An Issues Paper issued for comment by the IASC Steering Committee on Extractive Industries*, of November 2000 ('the 2000 Issues Paper')

(a) the nature of the activities involved, the extended period over which those activities are often conducted and costs incurred before any future economic benefits may be reasonably assured;

(b) the degree of risk and uncertainties associated with both exploration and production;

(c) the limited relationship between these risks and the rewards; and

(d) the scarce non-regenerative nature of the resources.

Downstream activities[2] are not proposed to be included in scope because these activities are in most ways similar to manufacturing and marketing operations that also exist in industries other than the extractive industries.

10. Furthermore, by setting the scope of extractive activities to 'minerals, oil, and natural gas', the project team is excluding 'and similar non-regenerative resources' from scope. This is a change in scope compared to IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which includes similar non-regenerative resources in scope. Similar non-regenerative resources also form part of the scope exclusions in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The project team thinks that the Discussion Paper should be defining the proposed scope tightly because the boundaries of 'similar non-regenerative resources' not readily apparent. This will encourage representatives from other industries or activities that consider themselves to be similar to upstream minerals and oil & gas activities to come forward and make their case for inclusion in scope of the eventual IFRS.

11. Other activities that arguably could be related to the scope may include activities that:

(a) share a similar process to upstream activities and face similar risks but which are not minerals, oil or gas, and may not even be strictly non-regenerative resources (e.g. geothermal energy projects, especially where the geothermal stream needs to be produced through human intervention rather than being released naturally); or

[2] Downstream activities are the refining, marketing and distribution of oil, gas or mined mineral other than the refining or processing that is necessary before it is capable of being sold. This definition is based on paragraph 1.18 of the 2000 Issues Paper.

(b) involve an extraction process of non-regenerative resources, but face significantly different risks to other upstream activities (e.g. extraction of gravel from quarries, or minerals from seawater).

12. The project team notes that expanding the scope of extractive activities could have consequential implications for other aspects of the project. To the extent these other extractive activities are not captured within the scope of the industry definitions of reserves and resources, a separate disclosure model and/or modifications to the accounting model might need to be developed.

Question 2 – Approach

Should the accounting model be consistent and comparable across the mining and oil & gas industries and the disclosure model broadly consistent between the two industries? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

Rationale for asking this question

13. A common accounting and disclosure model for upstream activities in the minerals and oil & gas industries would represent a change from existing practices, whereby the accounting and disclosure approaches often differ between entities operating in the oil & gas and minerals industries. Differences in oil & gas and minerals requirements may reflect the traditionally held view that these are separate and distinct industries. For instance, the different physical attributes of minerals and oil & gas (i.e. solids versus liquids and gas) affect the estimation process and this has influenced the development of reserve and resource definitions in each industry. However the key business activities (i.e. exploration, evaluation, development, production and site restoration) and geological and other risks and uncertainties are very similar. This was acknowledged in the report, *Mapping of Petroleum and Minerals Reserves and Resources Classifications Systems*, which was prepared by the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) and the Society of Petroleum Engineers Oil & Gas Reserves Committee (SPE) and discussed with the Board in March 2008.

14. It is for these reasons that the project team is advocating the development of a common accounting model. This view is also generally consistent with 66% of the respondents

to the 2000 Issues Paper, who indicated a preference for a single accounting standard that has separate requirements or guidance for the two industries as necessary to address industry-specific issues.[3] In the project team's view, contemplating different requirements or guidance for the two industries should generally be restricted to including separate disclosures where there is a clear indication that this would best meet user needs.

15. [Not included in Observer Note]

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

Should the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil & gas reserve and resource definitions established primarily by the Society of Petroleum Engineers be used in an IFRS for the extractive activities. If not, how should minerals or oil & gas reserves and resources be defined in an IFRS?

Rationale for asking this question

16. It is essential that constituents are invited to comment on the choice of reserve and resource definitions. Minerals or oil & gas reserves and resources definitions will form the foundation of the IFRS, as they will be used to prescribe disclosures and to support asset recognition and measurement (e.g. for calculating depreciation or for (potentially) defining the boundaries of a current value measurement). Although the CRIRSCO and SPE definitions have widespread use and acceptance internationally – both for use for internal management purposes and in some jurisdictions for public reporting – there are other reserve and resource definition and classification systems that some constituents might regard as being preferable. These include the definitions established by the US Securities and Exchange Commission (noting that their oil & gas reserve definitions are currently being revised to correspond more closely with the SPE definitions). Some constituents may also indicate support for the IFRS to instead refer to the United Nations Framework Classification for Fossil Energy and Mineral Resources.

[3] This was the overall response to question 1.3 of the 2000 Issues Paper, which asked "Should a single standard be developed for all extractive industries (that is, applicable to both mining and petroleum enterprises), or should separate standards be developed?".

Question 4 – Minerals or oil & gas asset recognition model –recognition

The project team proposes that legal rights, such as exploration rights or mineral rights, form the basis of the minerals or oil & gas asset. The asset is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities would be treated as an enhancement of the legal rights asset and therefore the costs of these activities would not be expensed as incurred. (Impairment assessments may be applied subsequently if there is no longer sufficient future economic benefits embodied in the information or the legal rights.) Do you agree with this analysis for the initial recognition of a minerals or oil & gas asset? If not, what asset(s) should be recognised and when should they be initially recognised?

Question 5 – Minerals or oil & gas asset recognition model – unit of account selection

There are two considerations for unit of account selection – its geographic boundaries and which assets should be accounted for as a single asset. The project team view is that the geographic boundary of the unit of account would initially be defined according to the exploration rights held but as exploration, evaluation and development activities occur, the unit of account would progressively contract until it becomes no greater than a contiguous area, or areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows. For the asset dimension to unit of account selection, the project team view is that the components approach in IAS 16 *Property, Plant and Equipment* applies. Do you agree with this being the basis for the unit of account of a minerals or oil & gas asset? If not, what should be the geographic and asset dimensions of the unit of account and why?

Rationale for asking these questions

17. Asset recognition and unit of account selection are the central building blocks of an accounting model for minerals or oil & gas assets. The project team's research has addressed asset recognition and asset measurement issues separately so that the proposed building blocks of an accounting model for minerals or oil & gas assets can be developed and assessed according to its conceptual merits rather than assessing the merits and shortcomings of the existing accounting models that are currently prevalent

in both industries, such as successful efforts, area of interest and full cost. For this reason, the project team recommends that the invitation to comment also deal with asset recognition, unit of account and asset measurement separately.

Question 6 – Minerals or oil & gas asset measurement model

Historical cost, fair value and a standardised measure have been identified as potential measurement bases for minerals and oil & gas assets.

Does the Discussion Paper appropriately consider the relevance of each of these bases for financial reporting of minerals and oil & gas assets? If not, what additional factors should be considered?

Does the Discussion Paper appropriately consider whether each of these bases results in a faithful representation of minerals and oil & gas assets? If not, what additional factors should be considered?

Does the Discussion Paper appropriately consider other qualitative characteristics such as comparability, verifiability, understandability and timeliness as well as cost/benefit for each of these bases? If not, what additional factors should be considered?

In your view, which measurement basis should be used for minerals and oil & gas assets and why?

Rationale for asking this question

18. The outcome from the research project's June 2007 education session was that the Discussion Paper should consider both a current value measurement model and a historical cost measurement model supplemented by detailed disclosure. Consequently, the Discussion Paper identifies justifications for and against current value and historical cost measurement of minerals or oil & gas assets. The purpose of this question is to test the completeness of the justifications presented and to seek input on which measurement model is most preferred and why.

Question 7 – Disclosure objective

The project team is proposing that the disclosure objective for extractive activities is to enable users of financial reports to evaluate an entity's minerals or oil & gas assets from the perspective of:

(a) the future cash flows that can be expected from these assets;

(b) the contribution of these assets to current period financial performance; and

(c) nature and extent of risks and uncertainties associated with these assets.

Do you agree with this as the objective for disclosures? If not, what should be the disclosure objective for the financial reporting of extractive activities and why?

Question 8 – Types of disclosure that would meet the disclosure objective

The project team is proposing that the types of information that should be disclosed in the notes to the financial statements include:

(a) the volumes of minerals or oil & gas that the entity expects to economically recover;

(b) information that provides insight into the amount of future cash flows that might be realised from recovering those volumes, noting this does not have to be a fair value measurement but could be a standardised measure or the disclosure of sufficient key assumptions to enable a user to determine that information themselves; and

(c) an explanation of changes between annual reporting periods in the volume estimate and any value-based estimate.

These disclosures should be provided on a disaggregated basis according to major common risk elements.

Do you agree that this type of information should be disclosed? Is it useful and feasible to prepare and present in a financial report? Are there any other types of disclosures that should be included?

Rationale for asking these questions

19. Users regard disclosure of reserve (and, in some cases, resource) information as critical to their investment decision making. Consequently, the project team considers that the disclosure of this information should be a feature of financial reporting for minerals and oil & gas entities.

Questions for the Board:

Should these questions be included in the Discussion Paper?

Are there any other questions that should be included?

Appendix A

Overview of the education sessions held on the extractive activities research project

1. The following table outlines the main topics discussed in each of the extractive activities research project's education sessions with the Board.

Meeting	**Topic/s discussed**
April 2005	**Reserve and resource definitions** The Board was provided with an overview of: • minerals and oil & gas reserve and resource estimation techniques; and • the various definition and classification systems used by entities for reporting their reserves and resources. This education session was presented by representatives from the Society of Petroleum Engineers Oil and Gas Reserves Committee (SPE) and the Committee for Mineral Reserves International Reporting Standards (CRIRSCO).
July 2005	**Reserve and resource definitions** The Board considered an initial comparison of the various minerals and oil & gas reserve and resource definition and classification systems – primarily the major minerals and oil & gas industry definitions (being the CRIRSCO and SPE definitions) and the US Securities and Exchange Commission's definitions of mineral reserves and oil & gas proved reserves. Differences between the industry definitions that were identified included differences in specificity, methodologies (e.g. economic assumptions, confidence levels), language, and the scope of the definitions. The comparisons also noted that some differences appear to be a consequence of the physical differences between mineral and oil & gas deposits, but other differences seem to be attributable to the fact that the definitions were developed and updated independently of each other in each industry. The Board indicated that the project team should not consider developing a single set of reserve and resource definitions that could be used for both minerals and oil & gas. Rather it was suggested that the project team should consider using definitions that are based on or be similar to existing definitions of reserves and resources definitions used in each industry. Representatives from SPE and CRIRSCO participated in this session. Following this education session, the Board invited an industry working

	group comprising members of the CRIRSCO and the SPE to undertake a detailed review of their respective reserve and resource definitions to, firstly, identify the potential for greater convergence of the definitions and, secondly, consider alternative approaches that may promote a common understanding of minerals and oil & gas reserve and resource definitions. The review was proposed because bringing the definitions closer together is expected to be beneficial to the development of an IFRS that would apply to mineral and oil & gas reserves and resources.
October 2006	**Fair value measurement of minerals or oil & gas assets** The Board discussed the suitability of fair value as the measurement objective in accounting for minerals and oil & gas reserves and resources. Prior to this education session, the project team completed extensive consultations with the project's advisory panel and others on the measurement of reserve and resource volumes and values. The consultations helped the project team understand the process used to prepare reserve and resource estimates (both volume and value estimates), whether the estimates provide reliable information, and what types of volume and value information would be useful to users. During the session, several concerns with estimating fair value for reserves and resources were identified, in particular: • the uncertainties inherent in the assumptions required to estimate the volume and fair value of reserves and resources; and • the effort required to estimate fair value as at the reporting date for an entity's reserve and resource assets in time to meet financial reporting deadlines. The Board acknowledged that there are difficulties in preparing fair value estimates of reserve and resource assets. However, it was noted that historical cost does not provide a relevant measurement basis for these assets. The Board therefore asked the project team to further research current value approaches as potential measurement bases. This research should include consideration of other current value methodologies that contain as many attributes of fair value as possible whilst addressing the identified difficulties.
June 2007	**User survey findings** The Board considered the findings from a user survey that the project team undertook to better understand the information needs of users involved in analysing minerals and oil & gas entities, with the aim of also assisting the project team to develop a current value measurement model. A total of 34 user interviews were conducted with buy-side and sell-side analysts, debt rating agencies, lenders and venture capitalists. The survey found that:

	• the financial statements and note disclosures provide some information that is necessary for users to make an informed investment decision in relation to a minerals or oil & gas entity – primarily information related to cash flow and current period expenditures – but the information provided in financial statements and note disclosures alone is not sufficient to meet the needs of analysts and much information is sourced elsewhere; • there is very limited interest in placing a valuation of reserves and resources (at current value or fair value) on the balance sheet; • there is limited interest in disclosing a valuation of reserves and resources (at current value or fair value); • measuring reserve and resource assets on the balance sheet according to a historical cost measurement model (e.g. successful efforts, full cost, area of interest) does not generate much useful information; • analysts generally would prefer more, and/or improved, disclosure of key valuation inputs so that those inputs could be incorporated into their own valuation models; and • directors' sign off was generally identified as the preferred assurance or responsibility process that could be applied to the reporting of reserve information. After discussing the survey findings, the Board indicated tentative support for the research project's Discussion Paper to include consideration of both a current value measurement model and a historical cost measurement model supplemented by detailed disclosure. Four analysts also took part in the education session discussion.
	Status report on the CRIRSCO/SPE convergence project The Board considered the interim findings from the CRIRSCO/SPE convergence project to compare and, where possible, bring into convergence the minerals and oil & gas definitions and classification systems. The status report noted that recent changes made to the SPE definitions have resulted in substantial consistency between the two systems. The status report also indicated that there is a high degree of compatibility in the classification logic that oil & gas and minerals evaluators apply in determining quantities of oil & gas or minerals that reside in a field or deposit. However, it was noted that the SPE and CRIRSCO did not consider that word-for-word convergence of the SPE and CRIRSCO definitions represents an achievable solution for communicating the nature and extent of alignment between the two systems. Instead, the SPE and CRIRSCO proposed the development of a 'mapping document' that can explain the similarities between the systems

	and the terminologies used within each of the industries. A representative from the SPE presented this session.
March 2008	**SEC update** The Board was provided with an overview of the SEC Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves, which closed for comment in February 2008. The Board asked the project team to continue to monitoring any future decisions that the SEC makes in relation to its Concept Release. Staff from the SEC presented this session.
	Final report on the CRIRSCO/SPE convergence project The Board considered the final report from the CRIRSCO/SPE convergence project and noted that the overall findings were consistent with the findings presented to the Board in June 2007. The Board also considered the 'mapping' report prepared by CRIRSCO and SPE, which mapped the oil & gas and minerals reserve and resource definitions to illustrate the extent of comparability between the respective definitions. The Board expressed the view that the mapping report would be useful for developing accounting and disclosure models for reserves and resources that are comparable across minerals and oil & gas. Representatives from the SPE and CRIRSCO participated in this session.
	Definitions on reserves and resources The Board had a further discussion on which definitions of minerals and oil & gas reserves and resources might be suitable for use in an IFRS. The Board expressed the view that the research project's Discussion Paper should identify the SPE and CRIRSCO definition and classification systems as representing the preferred sets of definitions for use in supporting accounting and disclosure requirements for minerals and oil & gas reserves and resources.
June 2008	**Asset recognition and unit of account selection** The Board discussed the initial recognition of assets relating to minerals or oil & gas reserve and resource assets and exploration properties. The research considered asset recognition from the perspective of the *Framework's* asset definition and recognition criteria, which contrasts with existing practice whereby it is common for entities to capitalise costs or recognise them as expenses according to the different phases of extractive activities, such as exploration and evaluation, development and production. The discussion concluded that legal rights, such as exploration rights or mineral rights, are the asset that corresponds to the minerals or oil & gas reserves and resources that should be recognised. This is because it is the

	legal rights that provide an entity with the enforceable rights to use and exploit the minerals or oil & gas deposit. Under this approach, a legal rights asset would be recognised when the rights are acquired. Following the recognition of a legal rights asset (either relating to exploration rights or mineral rights), information obtained from exploration and evaluation activities would be treated as an enhancement of the legal rights asset. This is because the information generates a better understanding of the economic resource that underlies the legal rights asset. As further information is obtained, uncertainty surrounding the potential and extent of future economic benefits that may reside in a minerals or oil & gas deposit should decrease. Arguably, as the level of uncertainty decreases, it may be possible to commence recognising the physical minerals or oil & gas deposit as the asset instead of the legal rights and information. However, it was acknowledged that the asset associated with a minerals or oil & gas deposit is the right to extract the minerals or oil & gas contained in the deposit and that this is the asset that should continue to be recognised. For the purposes of communicating information to users of financial reports regarding the uncertainty surrounding the minerals or oil & gas deposit to which the legal rights relate, it was noted that this should be achieved by asset presentation and the disclosure of reserve and resource information associated with the property rather than by identifying the minerals or oil & gas deposit as the asset. On unit of account selection, it was suggested that the unit of account that would apply during the exploration phase would initially be defined according to the exploration rights held. As more exploration and evaluation takes place, the size of the unit of account would contract to cover only the specific area(s) where detailed exploration and evaluation is taking place. During the development and extraction phases, the unit of account would be no greater than a contiguous area, or areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows. The other dimension to unit of account selection is to determine which infrastructure and equipment assets (if any) that are associated with a developed property should be included in the same unit of account as the legal rights asset. On this point, it was noted that the components approach in IAS 16 *Property, Plant and Equipment* may be useful in considering which assets should be recognised separately from the legal rights.
September 2008	**Disclosure issues** To be discussed at this meeting.

Appendix B

Proposed outline for the research project's Discussion Paper

IASB Preface

- Board's introductory comments on the Discussion Paper

Initiation to Comment

- Invitation to comment questions as per paragraphs 8-19 above

Chapter 1 – Introduction

- Reasons for issuing a Discussion Paper and undertaking the research project
- History of the project

Chapter 2 – Scope and scene setting

- Scope relates to the financial reporting of upstream activities in the minerals, oil and gas industries (i.e. extractive activities)
- Users' needs that can be addressed in the financial reporting of extractive activities
    - Who are the users of these financial reports?
    - Findings from research project's user survey
- Guiding principles for the research
    - To adhere to the *Framework*, but not necessarily bound by existing IFRSs (e.g. IAS 38 *Intangible Assets*)
    - To consider the development of consistent accounting and disclosure requirements across both industries
    - Not to provide industry specific solutions to issues that are widespread across a range of industries

Chapter 3 – Reserve and resource definitions

- Overview of the industry-based definitions of minerals and oil & gas reserves and resources – the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) template and the Society of Petroleum Engineers (SPE) Petroleum Resource Management System

- Other definition options, including Securities and Exchange Commission definitions and the United Nations Framework Classification for Fossil Energy and Mineral Resources

- Identification of comparable concepts between minerals and oil & gas definitions. This will refer to the findings from the SPE/CRIRSCO mapping report that was discussed with the Board in March 2008

- **Project team preliminary view:** Use CRIRSCO and SPE definitions to define reserves and resources for financial reporting purposes

Chapter 4 – Asset recognition and unit of account

- Types of assets that are related to extractive activities, such as legal rights, information, minerals or oil & gas deposits, and development works and plant and equipment necessary to extract the minerals or oil & gas

- Application of asset definition in IASB *Framework* (and proposed revisions)

- Application of asset recognition criteria in IASB *Framework* (and possible changes to criteria)

- **Project team preliminary view:** Legal rights, such as exploration rights or mineral rights, form the basis of the minerals or oil & gas asset. The asset is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities would be treated as an enhancement of the legal rights asset and therefore the costs of these activities would not be expensed as incurred.

- Unit of account selection for minerals or oil & gas assets

    - Geographical boundary considerations for the unit of account

    - Which types of assets should be included in the unit of account

- **Project team preliminary views:**

    - The geographic boundary of the unit of account should initially be defined according to the exploration rights held. As exploration, evaluation and development activities occur, the unit of account should progressively contract until it becomes no greater than a contiguous area, or areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

    - The components approach in IAS 16 *Property, Plant and Equipment* should apply to determine which plant and equipment assets should be recognised separately from the minerals or oil & gas asset.

- Implications of these preliminary views for other areas of accounting, such as impairment.

Chapter 5 – Asset measurement

- Analysis of the two measurement models being considered for minerals or oil & gas assets:
    - Historical cost
    - Current value
- **Project team preliminary view:** The project team has not reached a conclusion on whether historical cost or current value should be used as the measurement basis for these assets

Chapter 6 – Disclosures

- A disclosure objective for extractive activities
- Identification of guiding principles relevant to the disclosure objective
- Types of disclosures being contemplated
    - minerals and oil & gas reserve volume information
    - value-based information relating to the reserves, which would include a current value measurement of reserves as one option
    - explanation of the year-on-year changes in volumes and value-based information
    - time series of exploration, development and operating costs incurred
- Presentation of these disclosures – should they be presented for each mine or field or at some level of aggregation, such as on a country or regional basis?
- Other disclosure proposals being considered, including the Publish What You Pay proposals
- **Project team preliminary view:** Still being considered by project team