



Project **Extractive activities research project**

Topic **Forthcoming discussion paper**

Objective

1. The objective of this session is to provide ARG members with a brief overview of the forthcoming discussion paper on extractive activities. Following on from this session, the staff would appreciate ARG members' help in bringing the discussion paper to the attention of users who analyse entities that are engaged in mining or oil & gas extractive activities.

Questions for ARG

2. Because only 15 minutes has been allocated to this session, staff are not asking ARG members to respond to any specific questions. However, staff would be happy to discuss any aspect of the project with ARG members either at the meeting (time permitting) or afterwards.

Project background

3. The Board asked an international project team comprising staff from the national accounting standard-setters in Australia, Canada, Norway and South Africa to research the accounting for extractive activities. The forthcoming discussion paper presents the project team's findings and recommendations as a result of that research. The Board has discussed the project team's findings at public meetings but has not developed preliminary views on the project team's recommendations. The Board has agreed that if it adds the extractive activities

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the the Analyst Representative Group of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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project to its active agenda, it will regard the discussion paper as the first stage in its due process. In that case, the Board would publish an exposure draft as the next phase of such a project.

Summary of the discussion paper

4. A summary of the discussion paper is set out in Appendix A.

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Appendix A: Summary of the discussion paper

Scope of the project

- Mining and oil & gas
- Focuses on accounting for minerals and oil & gas properties, including reserves and resources
- Does not include issues addressed by other IFRSs (eg joint arrangements, revenue)

Reasons for the project

- Not addressed in IFRSs. IFRS 6 is a temporary “fix” until a more robust standard is developed. It permits a range of accounting
- Significant diversity in practice
- Some existing practices may not be consistent with the IASB *Framework*
- Importance of these industries globally

Key proposals in the discussion paper

Recognition

- An asset should be recognised when the legal rights to explore for, develop or produce minerals or oil & gas are acquired
- From exploration through production, the asset is the legal right. This asset evolves and changes as knowledge is gained from exploration and as development occurs. Some tangible assets with the same life as the legal rights may be accounted for as part of the legal right asset (eg infrastructure at a remote mine site)
- An asset represented by a set of legal rights may be subdivided over time if the entity views this as a set of separate properties. For example exploration rights to a

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large area may come to be viewed as containing 3 separate exploration plays, each of which would be accounted for as a separate asset

- Assets are derecognised when the legal rights are lost or the property is effectively abandoned

Measurement

- Measuring minerals or oil & gas properties at historical cost does not provide relevant information
- Measuring minerals or oil & gas properties at fair value or some other form of current value provides limited relevant information (because of the degree of subjectivity inherent in the estimate) and is not practical to prepare for each property each reporting period
- Users want to develop own valuation—want inputs to the valuation process—not interested in balance sheet measurement of minerals or oil & gas properties
- Not measuring the asset is equivalent to not recognising it; also results in charges to income for expenditures that add value
- The discussion paper proposes measuring asset at historical cost (as the least bad alternative)
- Impairment—data available in development and production phases but usually too uncertain during exploration phase
- During exploration phase, impairment will often depend on management judgement. Management should explain why impairment write downs have been made and why amounts for exploration properties remain capitalised

Disclosure

- Given the measurement difficulties, disclosure is seen as the key method of providing the information to meet user needs. The disclosure requirements proposed are significant. They overlap in many respects with existing regulatory

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requirements in a number of jurisdictions. Including them in an IFRS would result in uniform requirements around the world. A related issue is whether these disclosures should be part of the audited financial statements, since the audit effort might be substantial

- Proposed disclosures are:
 - Proved reserves, proved and probable reserves by commodity and by country or project (where material)
 - Key assumptions used in estimating reserves and sensitivities to changes in key assumptions
 - Reconciliation of changes in reserve quantities
 - Standardised measure of value of proved and probable reserves OR range of fair values by major geographical region plus key assumptions used and reconciliation of changes
 - Production revenues by commodity
 - Exploration, development and production costs by country or project (where material)—5 year time series
- The discussion paper also asks for comments on the disclosure proposals of the Publish What You Pay coalition, which include the disclosure of payments to governments by country