

Extractive Activities

Accounting Standards Advisory Forum meeting
October 2018

ASAF agenda paper 5

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Objectives of the meeting

- Reminder of the content of the 2010 Discussion Paper *Extractive Activities* and of the feedback received
- Overview of the initial work being performed
- To request feedback from ASAF members:
 - significant changes in extractive activities since the Discussion Paper that they think the Board should be aware of as it starts its research; and
 - views on whether users understand the diversity of accounting practice for extractive activities and how they cope with this diversity.

Background



1998

IASC commences project on accounting by entities in extractive industries

Main reasons for project:

- Should costs of finding, acquiring and developing reserves and resources be capitalised?
- How should capitalised costs be depreciated?
- Should reserve and resource quantities rather than costs affect recognition, measurement and disclosure?
- How should reserves and resources be defined and measured?

Background



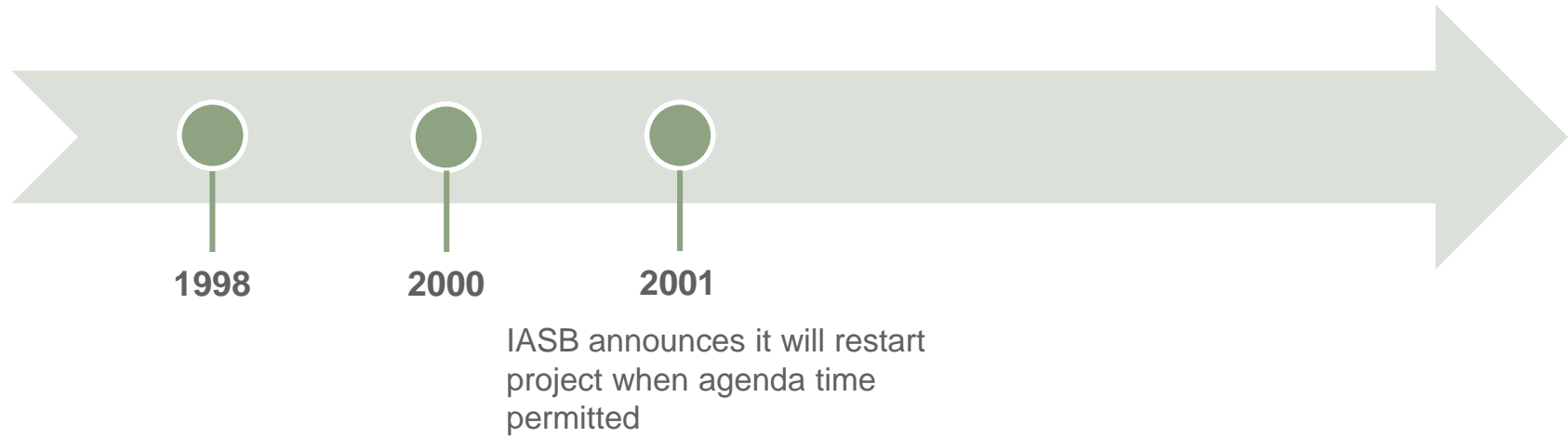
1998

2000

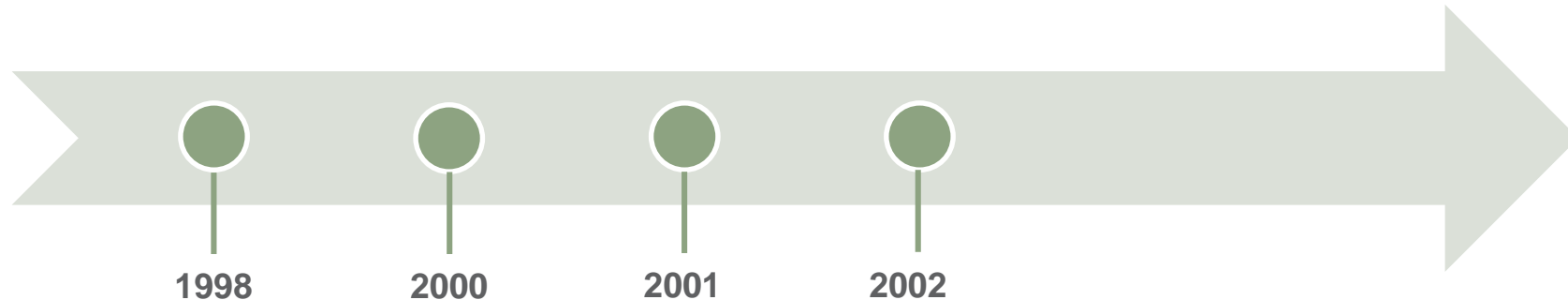
IASC Steering Committee on
Extractive Industries publishes
Issues Paper *Extractive
Industries*

52 comment letters received

Background



Background



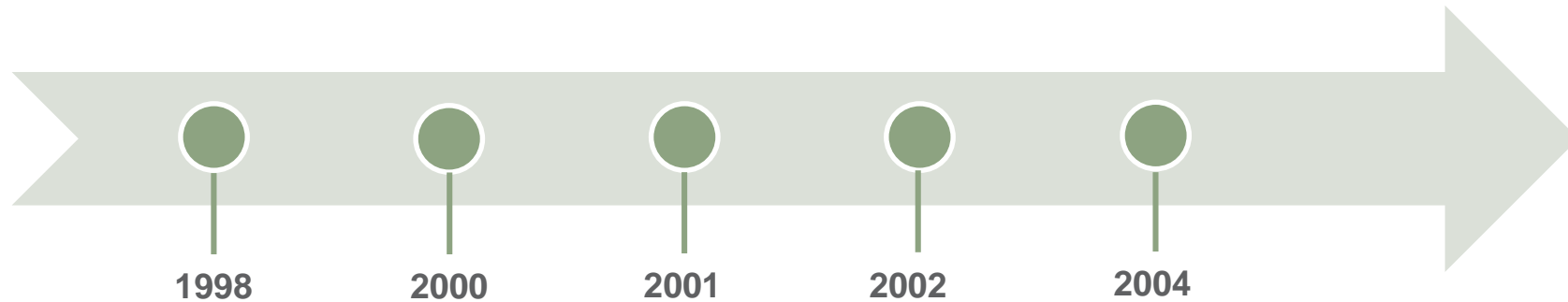
1998

2000

2001

2002

IASB decides not feasible to complete a comprehensive project on accounting for extractive activities in time for IFRS adoption in 2005



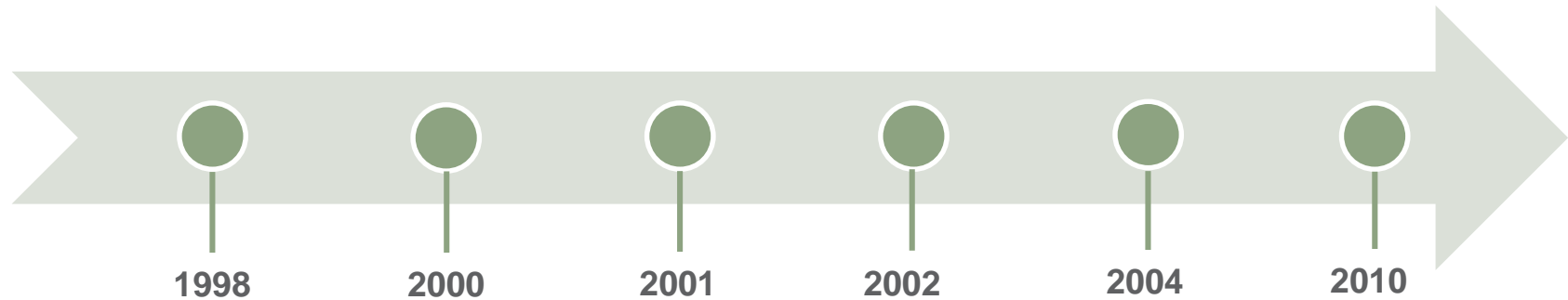
IASB issues IFRS 6 *Exploration for and Evaluation of Mineral Resources* which:

- made limited improvements to accounting practices for exploration and evaluation expenditure
- specified circumstances exploration and evaluation assets are tested for impairment under IAS 36
- required disclosure of information about exploration and evaluation assets and impairment of those assets

IASB initiated a research project to comprehensively assess the accounting for extractive activities

- Undertaken by a project team of staff from national accounting standard-setters in Australia, Canada, Norway and South Africa

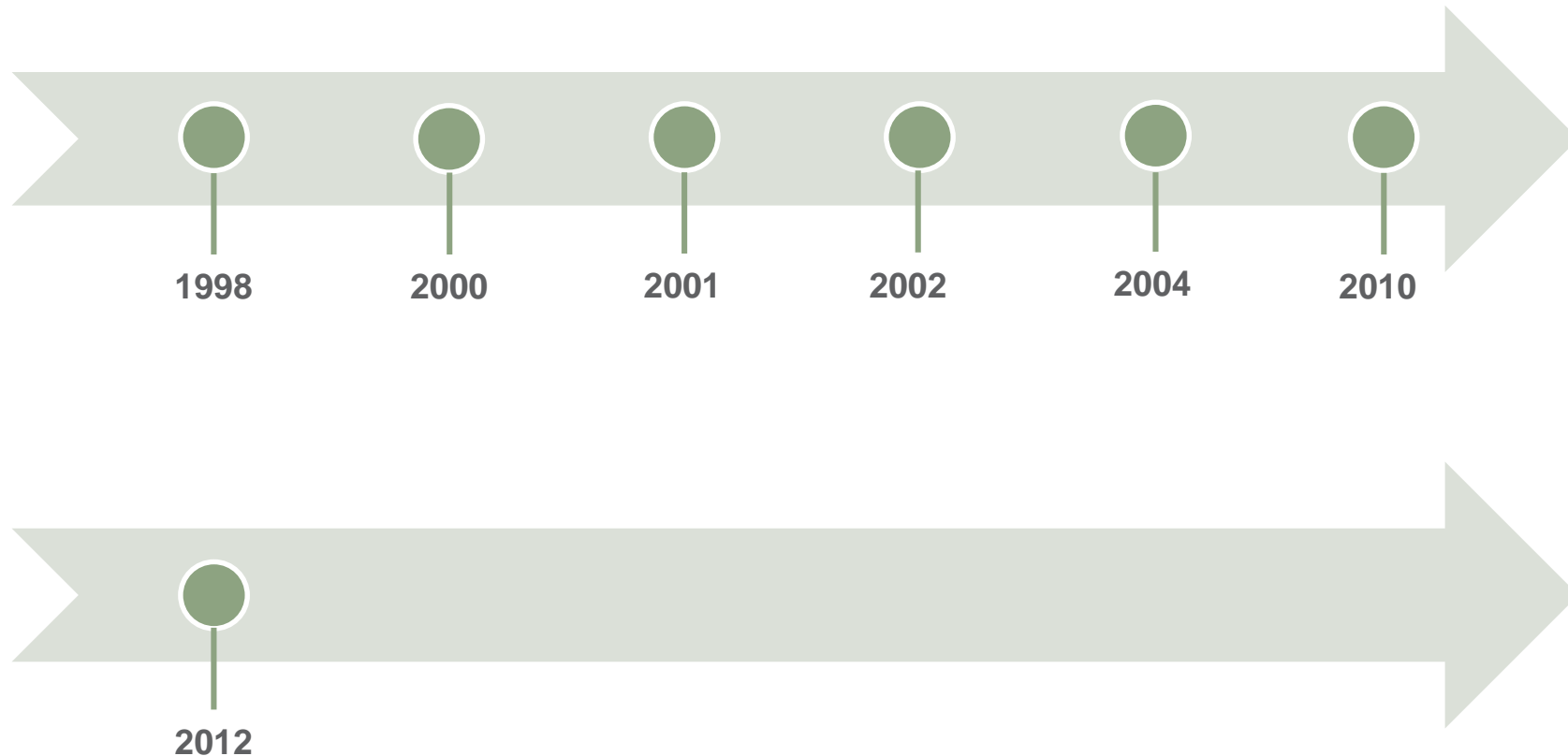
Background



Discussion Paper *Extractive Activities* issued by IASB

- Conclusions were those of the project team
- 141 comment letters received
- Board decided to wait until 2011 Agenda Consultation before doing more work

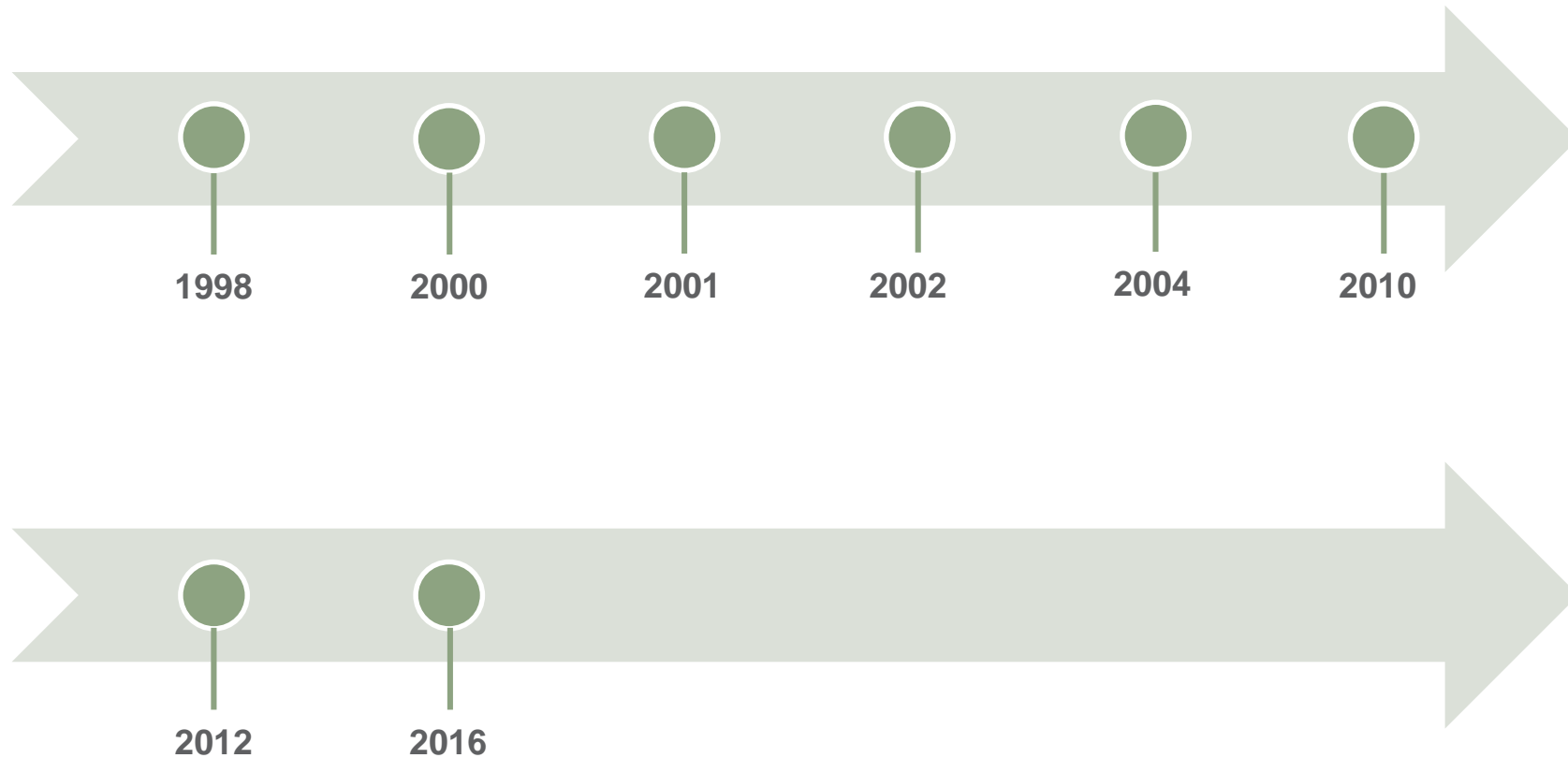
Background



Following 2011 Agenda
Consultation:

- project assigned low priority
- scope broadened to include R&D activities and intangible assets

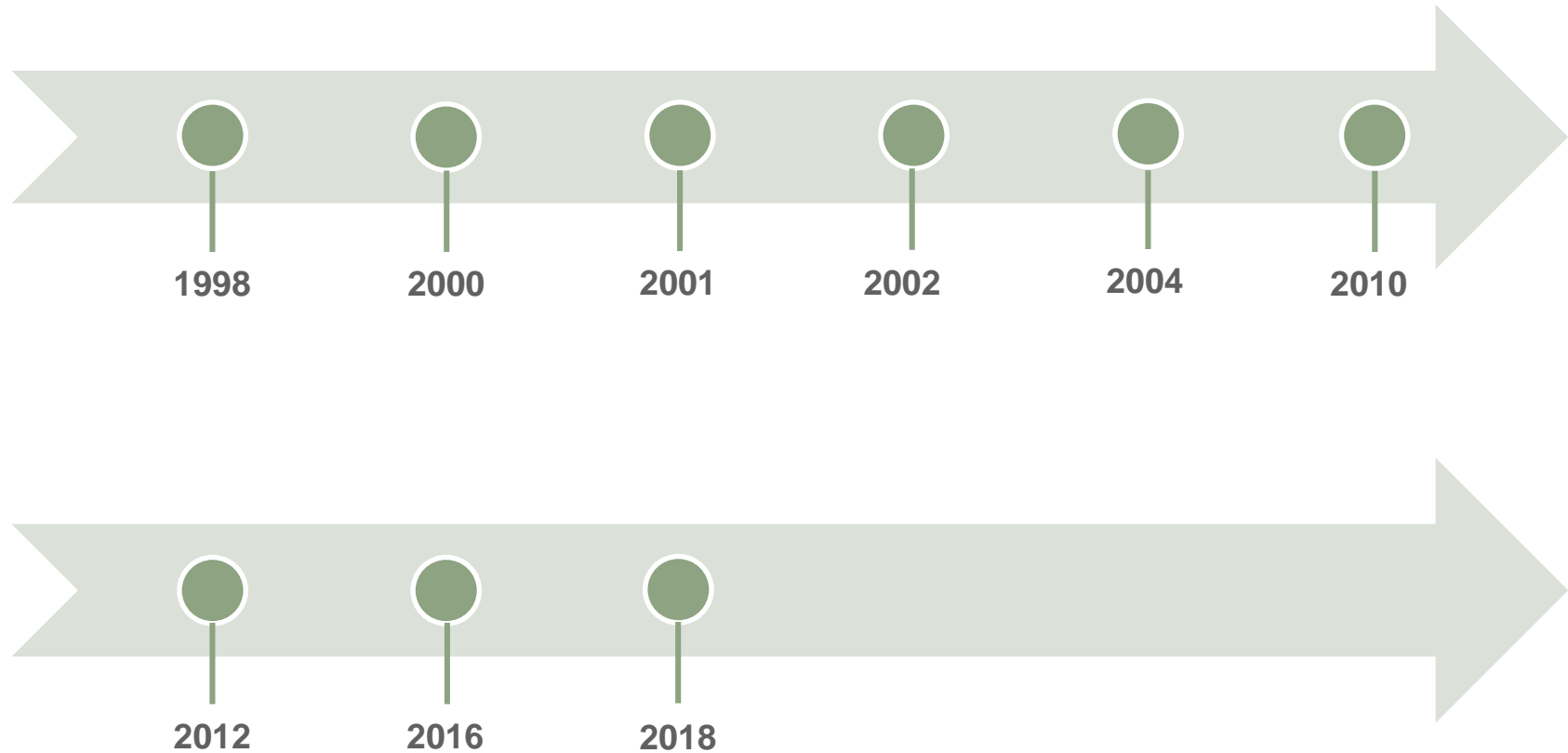
Background



Following 2015 Agenda
Consultation:

- Extractive Activities project added to the research pipeline
- No longer included with R&D activities and intangible assets

Background



IASB plans to start work on project by asking the national standard-setters that contributed to the 2010 DP to inform the Board of any significant changes in extractive activities



2010 Discussion Paper *Extractive Activities*

2010 Discussion Paper

14

Proposal	Feedback
<p><u>Scope</u></p> <ul style="list-style-type: none">• Extractive Activities – activities associated with exploring and extracting non-regenerative natural resources that are subject to several significant uncertainties • Single model for Mining and Oil & Gas	<p>Mixed views – some wanted a broader project on intangibles assets so that extractives accounting is consistent with other activities (eg R&D); some wanted other extractive issues included (eg risk sharing agreements); some thought only disclosure requirements should be developed</p> <p>Mixed views on single model</p>
<p><u>Reserve and resource definitions</u></p> <ul style="list-style-type: none">• Use CRIRSCO (Minerals) and PRMS (Oil & Gas) classification systems – broad equivalence of two systems	<p>Broad support – widely used systems</p> <p>Concerns:</p> <ul style="list-style-type: none">• How incorporated within IFRS, some thought principles should be developed• Economic assumptions to be used (entity-specific or standardised)

Proposal	Feedback
<p><u>Recognition</u></p> <ul style="list-style-type: none">• Legal rights (exploration or extraction rights) form the basis of the asset to be recognised• Information from exploration and development work performed enhance this asset	<p>General agreement</p> <p>General disagreement that subsequent activities would always result in an enhancement of the asset:</p> <ul style="list-style-type: none">• Criteria in <i>Framework</i> requires probable economic benefits• How does this expenditure differ from research in R&D <p>Alternative suggestions:</p> <ul style="list-style-type: none">• Use IAS 16 and IAS 38 principles• Use reserve and resource classification to determine recognition• Use existing methods eg successful efforts

2010 Discussion Paper

16

Proposal	Feedback
<p><u>Unit of account</u></p> <ul style="list-style-type: none">Initially based on the legal rights heldAs activities take place, unit of account contracts to be a single area or group of contiguous areas<ul style="list-style-type: none">managed separatelylargely independent cash flows	<p>General agreement although guidance will be required on cost allocation</p>
<p><u>Measurement</u></p> <ul style="list-style-type: none">Compared historic cost vs fair valueRecommended historic cost on basis of cost-benefit analysis and limited information provided to users by either method	<p>Majority agreed Fair value too subjective, volatile and costly</p>

2010 Discussion Paper

17

Proposal	Feedback
<p><u>Depreciation/Impairment</u></p> <ul style="list-style-type: none">• Depreciation:<ul style="list-style-type: none">• Rights – over period of right• Mineral or oil & gas properties – on a unit of production basis – but further guidance required• Impairment:<ul style="list-style-type: none">• Exception to IAS 36 for exploration rights• Write-down only when high likelihood carrying amount not recoverable• Separate set of indicators to assess whether can remain as assets	<p>Most respondents requested further guidance</p> <p>Most disagreed with creating an exception</p> <p>Proposal requires too much reliance on management judgement</p> <p>Suggested that difficulty may indicate a problem with the asset recognition approach</p>

2010 Discussion Paper

18

Proposal	Feedback
<p><u>Disclosures</u></p> <ul style="list-style-type: none">• Objective to evaluate:<ul style="list-style-type: none">• value of extractive properties• current period financial performance• nature and extent of risks• Reserve quantities (located outside notes of financial statements)<ul style="list-style-type: none">• Proved and Proved & probable• Reconciliation (opening to closing)• Sensitivity analysis	<p>Most agreed with objectives but overall concern with volume of disclosure requirements</p> <ul style="list-style-type: none">• Concern that disclosures duplicated or varied current regulatory disclosure requirements• Agreed should be located outside notes• Some thought should be part of management commentary guidance <p>Some reluctant to provide probable reserves, or should be voluntary</p> <p>Significant support</p> <p>Most disagreed - cost and limited benefit</p>

2010 Discussion Paper

19

Proposal	Feedback
<p><u>Disclosures (contd)</u></p> <ul style="list-style-type: none">• Reserve quantities (contd)<ul style="list-style-type: none">• Method and assumptions • Current value measurement<ul style="list-style-type: none">• Range of estimates or standardised measure• Assumptions• Reconciliation (opening to closing) • Production revenues by commodity and exploration, development & production costs in the period • Publish What You Pay	<p>Many thought price assumption should be historic average not entity's forecast (commercial sensitivity)</p> <p>Almost all disagreed, similar reasons for rejecting this as the measurement basis</p> <p>General support</p> <p>Most considered these disclosures to be outside the scope of financial reporting</p>

Next steps

- We are discussing with the national standard-setters (Australia, Canada, Norway and South Africa) the Board's request to provide it with an update of significant changes in extractive activities since the Discussion Paper.
- Refresher sessions being held at ASAF, IFASS, EEG (October)
- Annual Research Forum in Sydney (November 2018) requesting papers on Extractive Activities
- Board education/discussions to commence early 2019

To request feedback from ASAF members:

- significant changes in extractive activities since the Discussion Paper that they think the Board should be aware of as it starts its research; and
- views on whether users understand the diversity of accounting practice for extractive activities and how they cope with this diversity

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Contact us

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