

Extractive Activities

THIS PAPER IS CLEARER IF PRINTED IN COLOUR

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Copyright © IFRS Foundation. All rights reserved

- Background
- Key themes from feedback so far
- Next steps
- Appendix A: 2010 *Extractive Activities* Discussion Paper
- Appendix B: Feedback from National Standard-setters
- Appendix C: Options for the scope of the project

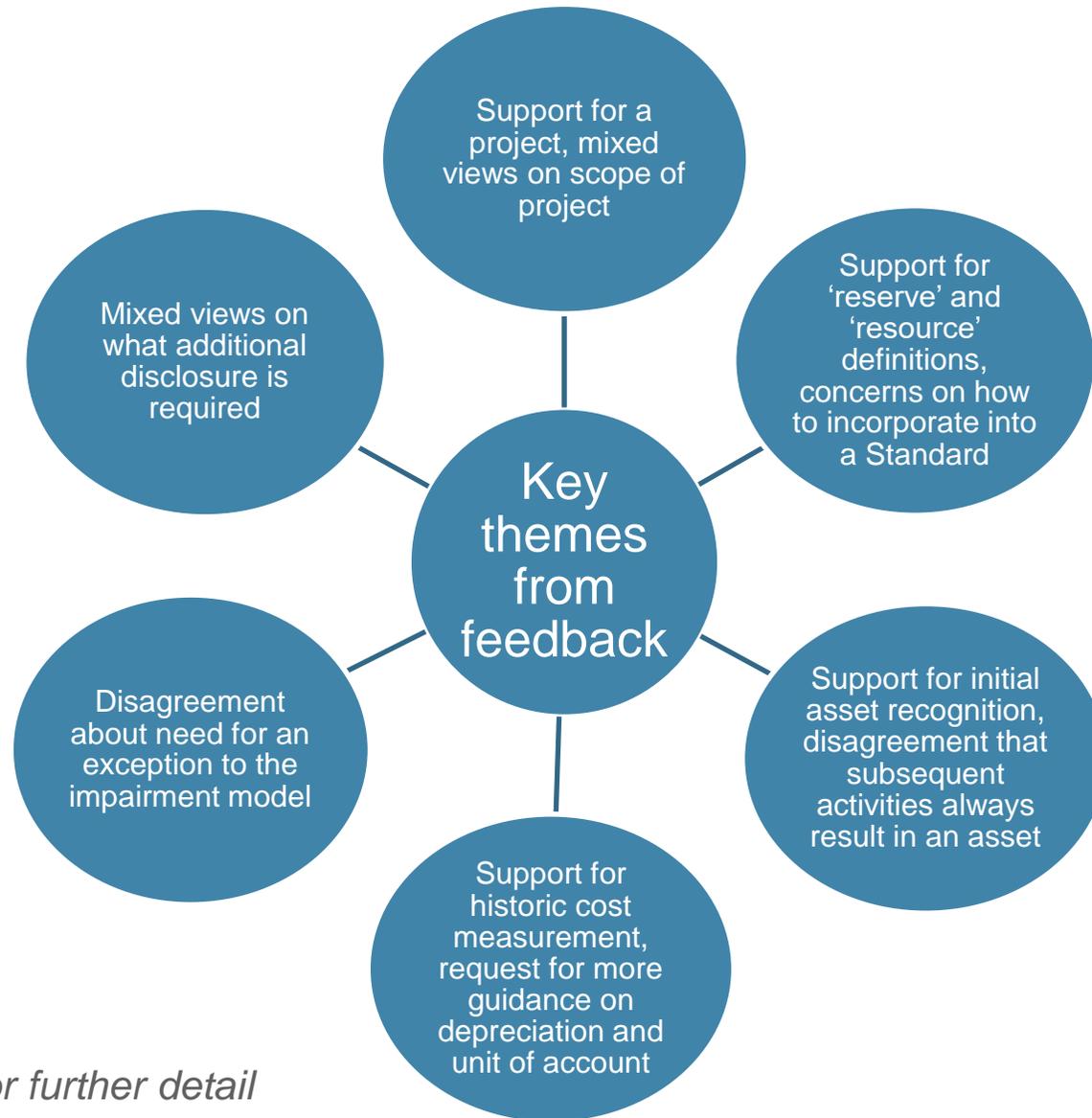
Background

Project background

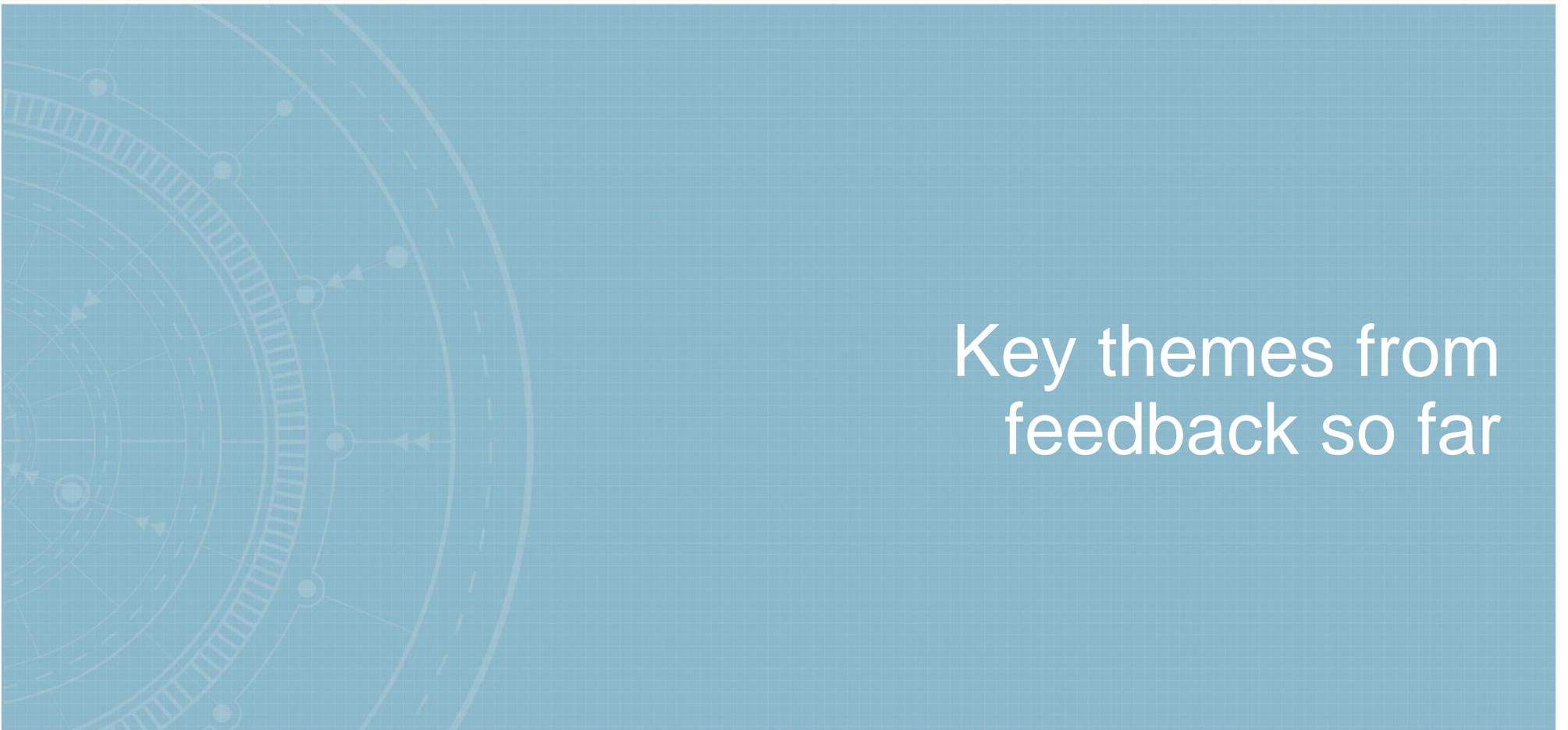
- Project added to the Board's active research programme in 2018
- The Board is in the process of gathering evidence to help it decide whether to start a project to develop proposals to replace or amend IFRS 6 *Exploration for and Evaluation of Mineral Resources*
 - The Board is considering feedback from the 2010 *Extractive Activities* Discussion Paper as part of that evidence (see **slide 6** for key themes from feedback on the Discussion Paper)

- IFRS 6 permits choice in the recognition and measurement of exploration and evaluation (E&E) transactions, other events or conditions. Consequently, accounting policies applied can vary from entity to entity which can impact, for example, key ratios, and therefore creates diversity
- The following are some examples of E&E accounting policies in practice:
 1. Expense all E&E expenditure, including acquisition costs, until the technical feasibility and commercial viability of extracting the resources has been determined
 2. Expense all E&E expenditure, except for acquisition costs which are capitalised, until the technical feasibility and commercial viability of extracting the resources has been determined
 3. Expense only pre-licence expenditure and capitalise all other E&E expenditure which are carried forward as assets where such costs are:
 - expected to be recouped through successful exploration and development of the area; or
 - E&E activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves
 4. Capitalised E&E costs under 3 are accumulated in separate geological areas (area of interest), cost pools not normally smaller in size than a country (full cost) or on a well by well basis (successful efforts)

2010 *Extractive Activities* Discussion Paper



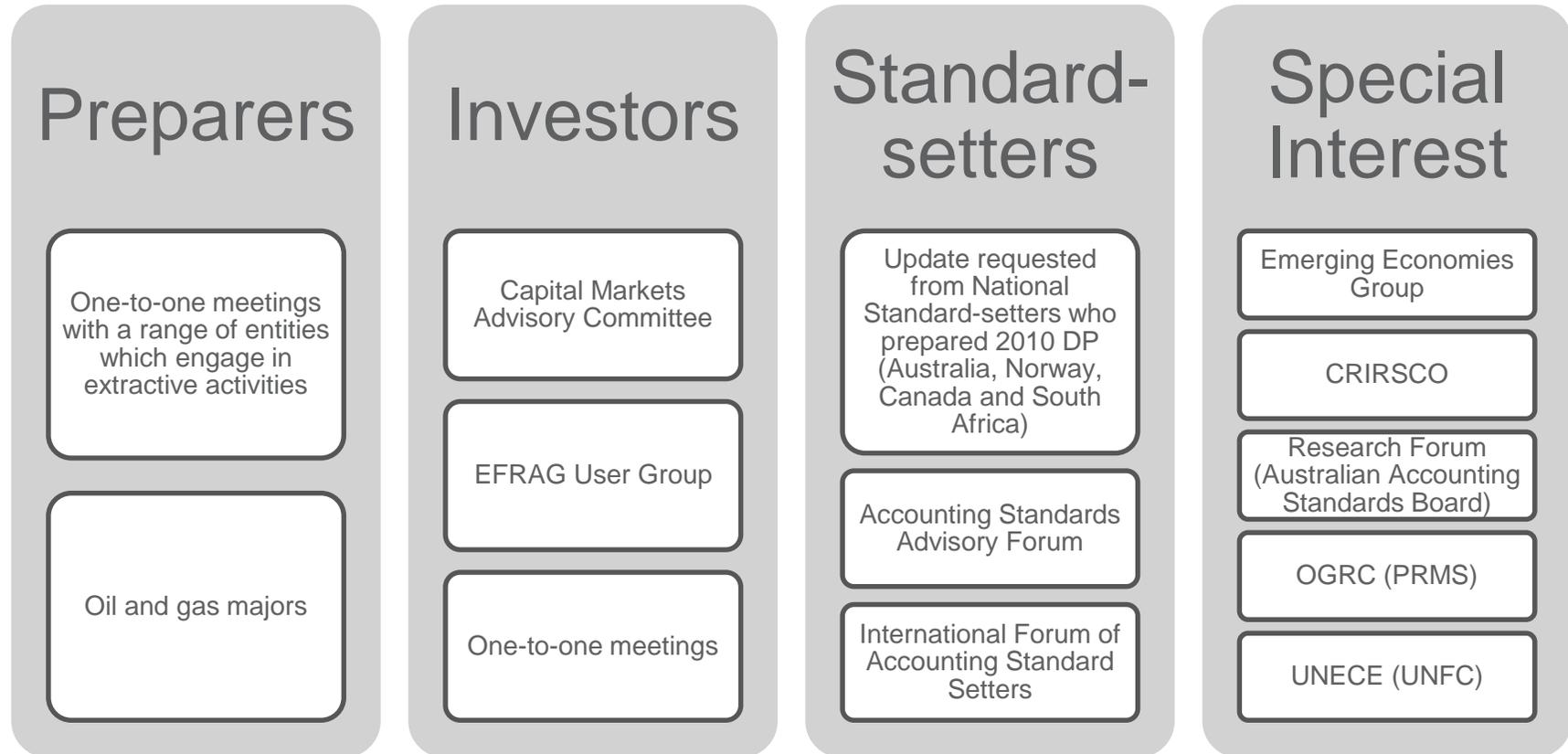
See *Appendix A* for further detail



Key themes from feedback so far

An update on outreach

- Since the research project became active in 2018, staff have consulted with a range of stakeholders



Key themes from feedback from National Standard-setters (so far)

- The **risk profile** of entities, and the industry in which they operate, has changed
- **New, and more complex, transactions** for which, in their view, recognition, measurement and disclosure requirements of existing Standards are not clear
- Many jurisdictions apply their own **reserve and resource classification system** and these systems have undergone minor amendments since 2010
- Some jurisdictions have implemented their own requirements for the **reporting of non-IFRS information** outside the financial statements such as payments to governments

See **Appendix B** for detailed feedback summary

Key themes from feedback from users (so far)

Lack of consistency and comparability in the financial statements

Non-IFRS information (eg management commentary, reserve and resource reporting, etc) is required to complement and enhance users' understanding of the financial statements

Effects of climate-change and environmental issues and obligations are not clear

Focus is primarily on cash measures, reserves and resources

More granular information for each metal and mineral and by property

Sensitivity analysis which reflects the material inputs into an entity's measurement of reserves and resources

Lack of consistency and comparability of non-IFRS information disclosed outside the financial statements

Key themes from feedback from preparers (so far)

11

Specific application challenges

- Risk-sharing arrangements and conveyances (eg production sharing contracts, farm-out agreements, etc)
- Difficulties in applying IFRSs to assets that are simultaneously in development and production
- Accounting for government imposts
- Application of new Standards (eg IFRS 15 *Revenue* and IFRS 16 *Leases*)

IFRS 6 application issues

- Assessing impairment of costs capitalised under IFRS 6 (eg identifying impairment indicators, calculating the recoverable amount, etc)
- Identifying a unit of account
- Lack of definitions (eg area of interest)
- However, some preparers are concerned about changing IFRS 6 as it currently allows for alignment to US GAAP requirements

Information being requested by investors

- Reserve and resource quantities (including the definitions of those reserves and resources); some preparers think that such disclosures are outside the scope of IFRS
- Measurement of rehabilitation/restoration provisions
- Management assumptions and judgements (eg reserve and resource quantities)
- Alternative performance measures
- Cash costs and movements

Key themes from feedback on the project scope (so far)

During discussions with stakeholders the following options have been volunteered so far (see **Appendix C**):

Options with wider support

Develop a disclosure-only standard for extractive activities

Maintain the scope of IFRS 6 but (i) improve comparability and consistency and (ii) expand the scope of disclosure to include reserves and resources

Withdraw IFRS 6 and account for all extractive activities using the existing IFRS Standards (eg include extractive activities in broader scope project which would revisit IAS 38 *Intangible Assets*)

Options with limited support

Do nothing (ie the Standard is working as expected)

Develop an industry-specific standard which covers all extractive activities

An update on research activities

13

At its September 2019 meeting, the Board discussed:

2018 *Conceptual Framework for Financial Reporting* (eg can exploration and evaluation costs meet the revised definition of an asset?)

Effects of Standards and other Board documents issued since 2010 (ie how do these affect the recognition and measurement issues addressed in the 2010 Discussion Paper?)

Effect of the Disclosure Initiative (ie how do the projects under the Disclosure Initiative umbrella affect the disclosure issues addressed in the 2010 Discussion Paper?)

Reserve and resource reporting (ie have there been changes to the reserve and resource classification systems identified in the 2010 Discussion Paper and if so, how do they affect the other reporting issues addressed in the 2010 Discussion Paper?)

Other related reporting requirements (eg payments to governments and other transparency initiatives)

See [September 2019 Agenda Papers 19A to 19F](#)

Questions

Questions (Preparers)

1. What information do your primary users ask for in relation to extractive activities that is not currently required by your audited financial statements?
2. What information, if any, about your extractive activities do you have to provide in accordance with the national or stock exchange regulatory requirements, including reserve and resource disclosures, in addition to IFRS requirements?
3. What reserve and resource classification system, if any, is used in your jurisdiction?
4. What is your accounting policy for exploration and evaluation expenditure and what is the rationale for this?
5. Have your primary users asked questions about how you account for exploration and evaluation expenditure?

Questions (Preparers cont.)

6. Do you think IFRS 6 should be expanded to require the disclosure of non-IFRS information such as reserve and resource disclosures? Why, or why not?
7. Have there been any developments in the extractive activities industry which you think are not being addressed by the IFRS Standards, but should be?
8. What IFRS Standards do you find particularly hard to apply to your extractive activities and why?
9. Do you think there is a need for the Board to undertake a standard-setting project on extractive activities? If so, why? What matters do you think the Board should address in the project?

Questions (Users)

1. What information do users of financial statements lack today for making informed decisions about an entity undertaking extractive activities? Why would that information be useful?
2. Do you adjust the information in financial statements about extractive activities, for example to eliminate differences in accounting policies? If so, what adjustments do you make and why?
3. What are the most relevant sources of information about extractive activities (financial statements, management commentary, the entity's website, etc)? Is that information always consistently available? Is the information audited?
4. Do you think there is a need for the Board to undertake a standard-setting project on extractive activities? If so, why? What matters do you think the Board should address in the project?

Questions (NSS)

1. How economically significant is the extractives industry to your jurisdiction? For example, how significant is the extractives industry to your jurisdiction's GDP?
2. What are the main types of entities with extractive activities that operate in your jurisdiction:
 - state owned
 - privately-owned
 - local – listed locally
 - local – listed overseas
 - foreign – listed locally
 - foreign – listed overseas?

Questions (NSS cont.)

3. Do those entities identified in Question 2 apply IFRS Standards?
4. What reserve and resource classification system, if any, is used in your jurisdiction?
5. What, if any, are the national or stock exchange regulatory requirements in your jurisdiction to disclose information on extractive activities, including reserve and resource disclosures, in addition to IFRS requirements?
6. What financial reporting issues are you aware of in relation to extractive activities for:
 - preparers – eg in what areas are IFRS Standards difficult to apply?
 - regulators – eg are any areas of IFRS Standards difficult to enforce?
 - users – eg is relevant information consistently available?

Questions (NSS cont.)

7. Are there other industries which have been established in your jurisdiction that you consider should be included in the scope of extractive activities?
8. Are there any recent developments in the extractives industry that you want to make the Board aware of?
9. Do you think there is a need for the Board to undertake a standard-setting project on extractive activities? If so, why? What matters do you think the Board should address in the project?

Questions (Regulators)

1. What are the national or stock exchange regulatory requirements, if any, in your jurisdiction to disclose information on extractive activities, including reserve and resource disclosures, in addition to IFRS requirements?
2. What reserve and resource classification system, if any, is used in your jurisdiction?
3. Do you consistently identify issues with the financial statements of entities operating within the extractives industry in your jurisdiction? If so, what are those issues?
4. Do you think there is a need for the Board to undertake a standard-setting project on extractive activities? If so, why? What matters do you think the Board should address in the project?

Next steps

- Staff are performing additional outreach with other jurisdictions and users which will contribute to providing the Board with a more complete analysis on extractive activities at a future Board meeting
- Board education/discussions to continue
- Board plans to discuss the scope of the project thereafter
- For further information, visit the project page:
 - <https://www.ifrs.org/projects/work-plan/extractive-activities/>



Appendix A – 2010 *Extractive Activities* Discussion Paper

2010 Discussion Paper

25

| 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

27

| 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

28

| 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 the proposal:</p> <ul style="list-style-type: none">• Some disagreed with creating an exception• Some disagreed as proposal requires too much reliance on management judgement• Some suggested that difficulty may indicate a problem with the asset recognition approach |

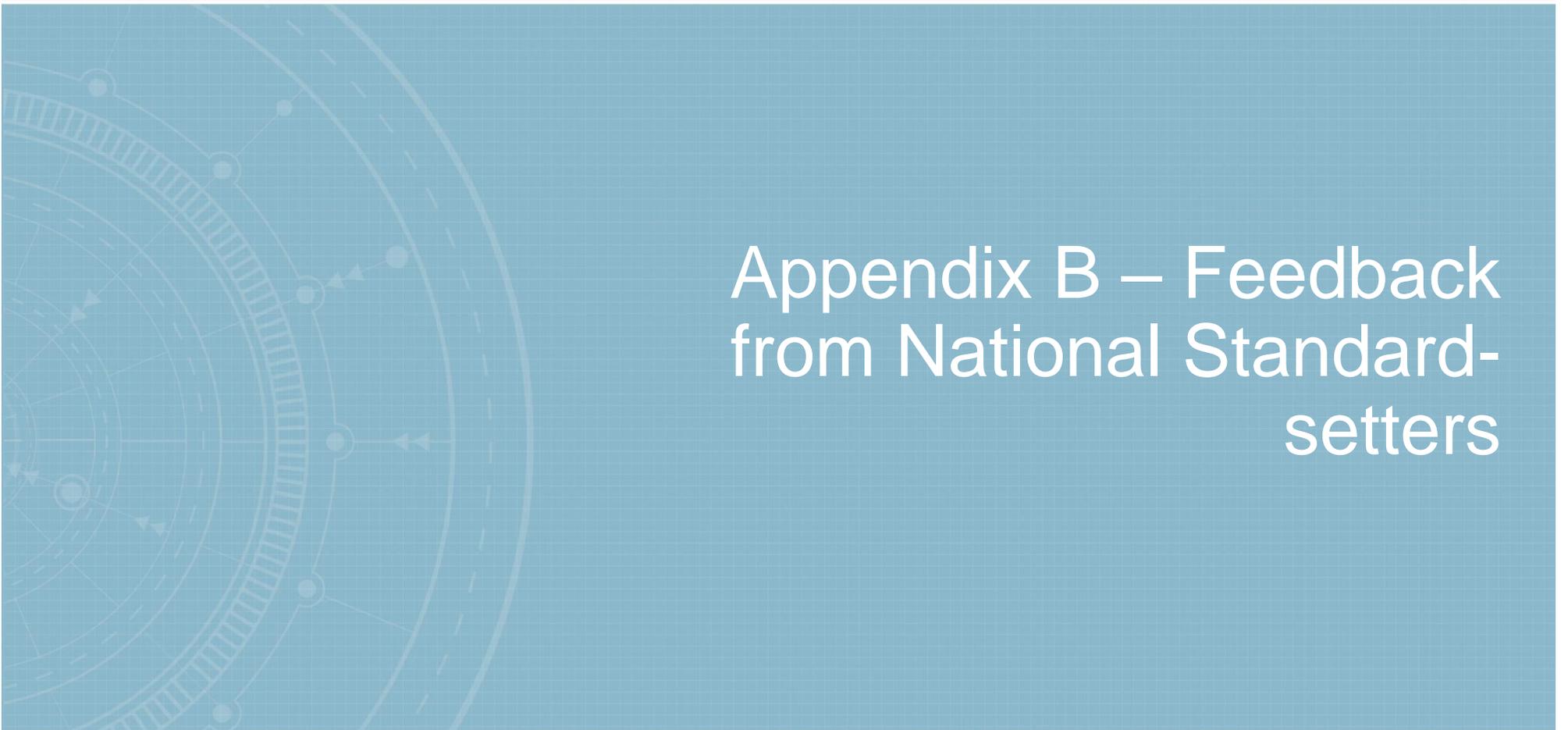
2010 Discussion Paper

| 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• Most agreed should locate 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

30

| 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 (except for NGOs and investment funds) considered these disclosures to be outside the scope of financial reporting</p> |



Appendix B – Feedback from National Standard- setters

- In 2018 the Board asked those National Standard-setters whose staff developed the 2010 Discussion Paper to provide an update of any significant changes in extractive activities since 2010 that could affect the content and project proposals of the Discussion Paper

Key areas of change since 2010

- The **risk profile** of entities, and the industry in which they operate, has changed
- **New, and more complex, transactions** for which, in their view, recognition, measurement and disclosure requirements of existing Standards are not clear
- Many jurisdictions apply their own **reserve and resource classification system** and these systems have undergone minor amendments since 2010
- Some jurisdictions have implemented their own requirements for the **reporting of non-IFRS information** outside the financial statements such as payments to governments

- The **risk profile** of entities operating within the extractives industry has become more complex and, as a result, are subject to greater risk
- Respondents provided the following examples:
 - i. increasing use of unconventional extractive activities (eg Coal, Seam and Gas (CSG) mining, fracking, etc)
 - ii. increase in the use of new and more complex transactions (eg alternative financing arrangements, farm-out arrangements, etc)
 - iii. increase in price volatility of minerals and oil and gas
 - iv. increased politicisation of the industry

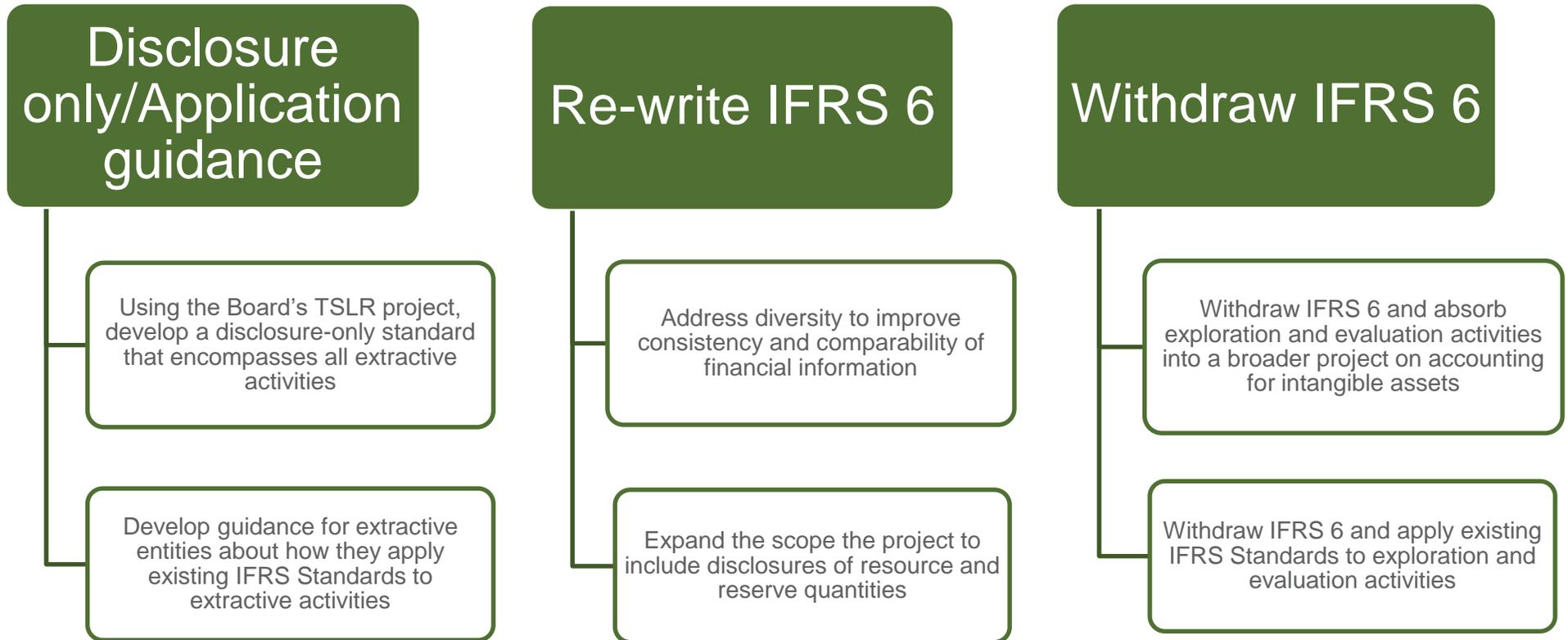
- Extractives entities are increasingly using **new and more complex transactions** for which, in their view, accounting requirements are not clear
- Respondents provided the following examples:
 - i. complex joint arrangements
 - ii. determining a unit of account when accounting for a sale of a working interest
 - iii. farm-out arrangements
 - iv. recognition and measurement of property which has not been previously explored

- There is a legal requirement in place to use a specific **reserve and resource classification system** within each jurisdiction. Respondents noted minor updates to the relevant definitions of reserves and resources. For example:
 - i. Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards on *Mineral Resources and Mineral Reserves* have been aligned with the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) definitions
 - ii. Australia's Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) was revised to improve the quality of reporting
 - iii. Small changes in the Petroleum Resource Management System (PRMS) were noted

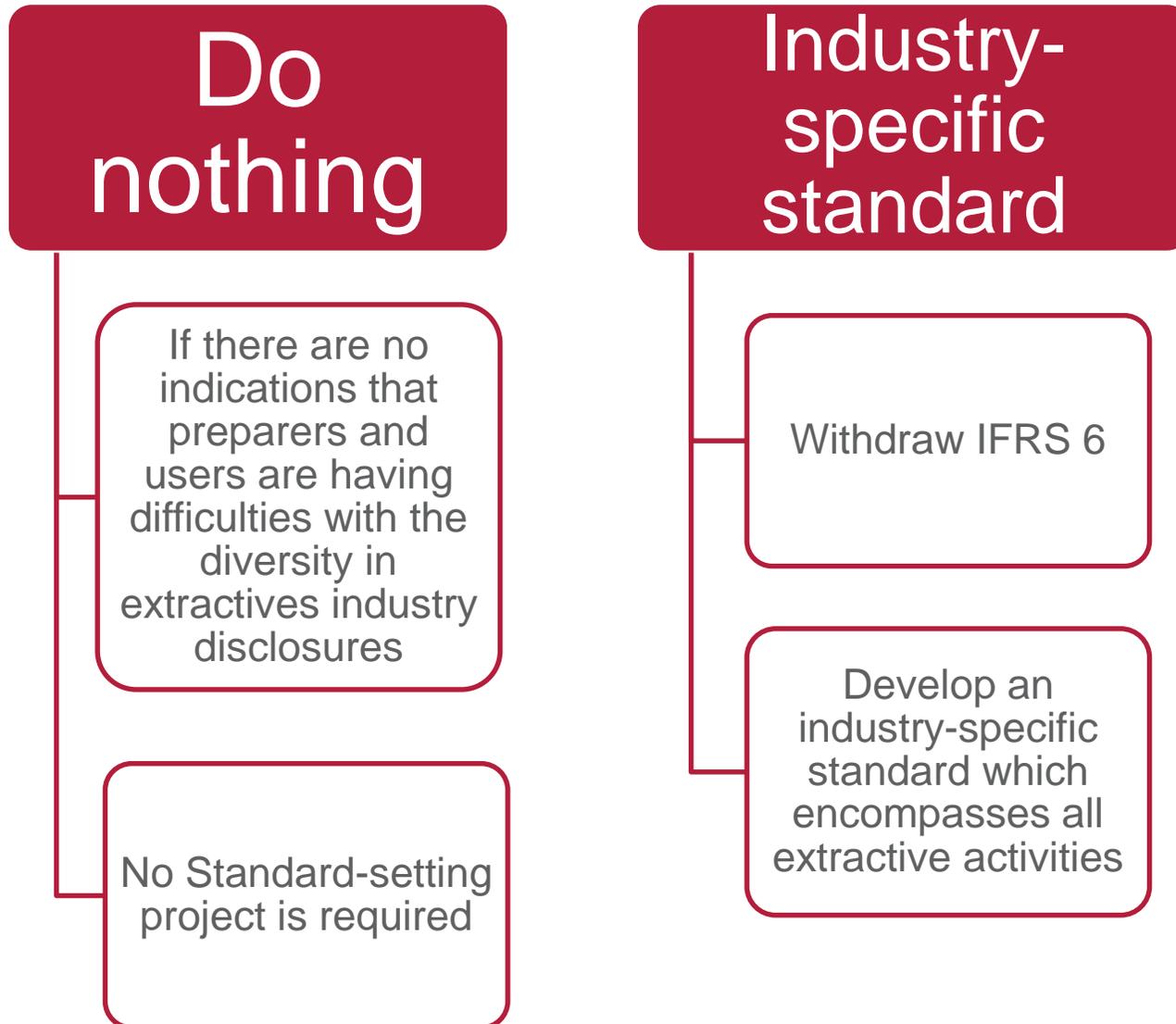
- Additional jurisdictional **reporting of non-IFRS information**, outside the financial statements, have been implemented in relation to payments to governments. For example:
 - i. the European Union requires entities operating within the extractives industry to disclose ‘payments to governments’ for extractive activities
 - ii. In Canada, the *Extractive Sector Transparency Measures Act* (ESTMA) was introduced and establishes reporting and transparency obligations for the extractives sector

Appendix C – Options for the scope of the project

Key themes from feedback on the project scope



Key themes from feedback on the project scope (cont.)



Contact us

Keep up to date



@IFRSFoundation



IFRS Foundation



go.ifrs.org



IFRS Foundation

Comment on our work



go.ifrs.org/comment