

## STAFF PAPER

September 2021

## IASB Meeting

Project	Extractive Activities		
Paper topic	Assessment factors		
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**Objective**

1. The objective of this paper is to present staff analysis about the assessment factors applied to help determine the scope of the Board's project on extractive activities.
2. This paper is for information purposes only and does not ask the Board to make decisions.

**Overview**

3. This paper is structured as follows:
  - (a) Summary of the assessment factors (paragraph 4);
  - (b) Background (paragraphs 5–7); and
  - (c) Assessment factors and feedback (paragraphs 8–22).

**Summary of the assessment factors**

4. For the purpose of identifying the scope of the Board's project on extractive activities, we assessed each matter identified through outreach and research against five factors:

- (a) **Relevance**—that is, whether the matter affects all entities or only those with extractive activities;
- (b) **Scope of IFRS 6**—that is, whether the matter relates to exploration and evaluation (E&E) activities or to activities outside the scope of IFRS 6 *Exploration for and Evaluation of Mineral Resources*;
- (c) **Diversity**—that is, whether the matter gives rise to diversity in the accounting for similar transactions;
- (d) **Improvements**—that is, whether the matter is one for which the Board can significantly improve accounting (including disclosure); and
- (e) **Effects on users**—that is, whether the matter has a material effect on primary users of financial statements (users).

## Background

5. The Board added the *Extractive Activities* research project to its active agenda in 2018. The objective of this research project is to gather evidence to help the Board decide whether to start a project to replace or amend IFRS 6.
6. As part of the commencement of this project, we reviewed the analysis and proposals of the 2010 *Extractive Activities* Discussion Paper (Discussion Paper), and feedback to that Discussion Paper. Although the scope of IFRS 6 is limited to E&E expenditure (see paragraph 3 of IFRS 6), the Discussion Paper proposed expanding that scope to include all upstream extractive activities (that is, E&E, development and production activities).
7. Consistent with feedback to the Discussion Paper, stakeholders consulted more recently had mixed views about the potential scope of a project on extractive activities. For example<sup>1</sup>:
  - (a) some said the scope should be expanded to address accounting for all extractive activities and not only E&E activities (similar to the Discussion

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<sup>1</sup> See [October 2010 Agenda Paper 7A](#) and [Agenda Paper 7B](#), [September 2019 Agenda Paper 19A](#) and [June 2020 Agenda Paper 19A](#).

Paper did). Some of these stakeholders also identified various application matters faced by entities with extractive activities as evidence supporting an expanded project scope.

- (b) some suggested undertaking a project on IFRS 6 only—that is, focus on improving the recognition, measurement and disclosure requirements for only E&E activities, primarily to improve the consistency in the accounting for E&E expenditure. These stakeholders said other extractive activities are appropriately accounted for applying other IFRS Standards, although some suggested providing guidance on particular application matters.
- (c) some suggested expanding the scope to also address non-IFRS information such as reserve and resource information. These stakeholders were concerned about the availability and consistency of such information because, in their view, this information is important for users and can affect the estimates, assumptions and judgements used in financial statements.
- (d) a few said revisiting the accounting for E&E expenditure should be included in a broader project that reconsiders the accounting for intangible assets.
- (e) a few said there is no need for a project—in their view, IFRS 6 is working as intended.

### **Assessment factors and feedback**

- 8. To help address the mixed views about the scope of a potential project on extractive activities, we developed an approach to:
  - (a) group and analyse matters identified through the Discussion Paper, feedback to the Discussion Paper, outreach and research; and
  - (b) help the Board identify whether to address these matters as part of its project on extractive activities.
- 9. We think considering the following five factors will help this assessment:

- (a) **Relevance**—that is, whether the matter affects all entities or only those with extractive activities (paragraphs 14–15);
- (b) **Scope of IFRS 6**—that is, whether the matter relates to E&E activities or to activities outside the scope of IFRS 6 (paragraph 16);
- (c) **Diversity**—that is, whether the matter gives rise to diversity in the accounting for similar transactions (paragraphs 17–18);
- (d) **Improvements**—that is, whether the matter is one for which the Board can significantly improve accounting (including disclosure) (paragraphs 19–20); and
- (e) **Effects on users**—that is, whether the matter has a material effect on users (paragraphs 21–22).

### **Standard-setter feedback (ASAF)**

- 10. We consulted the Board’s Accounting Standards Advisory Forum (ASAF) at their March 2021 meeting to ask:
  - (a) whether they agreed with the factors listed in paragraph 9; and
  - (b) whether there are additional factors the Board should consider.
- 11. Of the ASAF members that responded, all agreed that the factors listed in paragraph 9 would help. However:
  - (a) a few said the five factors should not be weighted equally. These members suggested considering the effects on users above all other factors.
  - (b) in relation to the ‘relevance’ factor, one said the Board should consider any matter affecting extractive industries, regardless of whether the matter also affects other industries.
- 12. A few ASAF members suggested also considering:
  - (a) whether the Board has the necessary resources and expertise to address the matter identified, including whether the Board would need to utilise an expert working group or advisory committee (see also paragraphs 19–20);

- (b) interaction with existing IFRS Standards and current and future projects—for example, one member suggested considering whether a matter is already being addressed by existing projects (for example, the Post-Implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*) or might be addressed by projects being suggested as part of the Board’s Third Agenda Consultation (see also paragraphs 19–20);
  - (c) interaction with jurisdictional regulatory requirements—for example, jurisdictional regulatory requirements for reserve and resource information (see also paragraphs 19–20); and
  - (d) whether addressing the matter would improve financial statement comparability (see also paragraphs 19–20).
13. Comments from ASAF members have been incorporated into each of the assessment factors as follows.

### **Relevance**

14. This factor considers whether the matter relates only to extractive industries or to all industries. For example, we understand that collaborative arrangements<sup>2</sup> are common not only in the extractive industries but are also used in other industries such as pharmaceuticals.
15. Although affecting industries other than extractive industries would not preclude a matter from being further considered, the purpose of this factor is to:
- (a) help group matters so that they can be analysed in a logical manner.
  - (b) determine whether the matter is specialised or if other industries could also benefit from, or be affected by, any related improvements and what the nature of any improvements should be. For example, whether the evidence supports the development of requirements specific to the extractive industries, or targeted amendments to one or more IFRS Standards.

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<sup>2</sup> An arrangement in which relevant parties share the costs, risks and rewards of, in the case of extractive activities, exploring for, developing and producing mineral reserves.

### **Scope of IFRS 6**

16. This factor considers whether the matter relates only to E&E activities, or if it relates to other extractive activities such as development or production activities. The purpose of this factor is to help determine the scope of the project. For example:
- (a) whether evidence supports expanding the scope of IFRS 6 to other activities; and
  - (b) whether evidence highlights specific areas of the accounting for E&E expenditure such as impairment or elements of the cost of E&E assets.

### **Diversity**

17. This factor considers whether the matter gives rise to diversity in the treatment of similar transactions. For example, when applying the units-of-production method for depreciating assets, we understand diversity can arise because entities might calculate depreciation using<sup>3</sup>:
- (a) proved reserves;
  - (b) proved and probable reserves;
  - (c) proved and probable reserves plus a portion of resources expected to become reserves; or
  - (d) proved and probable reserves and resources.
18. The purpose of this factor is to help identify whether the matter affects the comparability of financial statements, and whether any lack of comparability reflects differences in underlying facts and circumstances.

### **Improvements**

19. This factor considers whether and how the Board can improve accounting (including disclosures) for the matter. That is, whether any requirements or guidance developed to address the matter will result in more useful information at a reasonable cost.

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<sup>3</sup> Reserve and resource classification systems, such as CRIRSCO and PRMS, define exactly what is meant by **proved** and **probable** reserves and resources.

20. This factor aims to help the Board identify the potential improvements and relevant considerations of developing requirements or guidance for the matter. This includes considering:
- (a) interaction with existing IFRS Standards, projects on the Board’s agenda and potential future projects being suggested as part of the Board’s Third Agenda Consultation;
  - (b) potential resources and expertise that would be required; and
  - (c) interaction with jurisdictional regulatory requirements.

***Effects on users***

21. This factor considers whether the matter materially effects users. For example,:
- (a) whether users appreciate existing diversity because, for the matter identified, it provides more useful information than would be the case if the accounting for the matter were to be standardised; and
  - (b) whether users can manage existing diversity.
22. The purpose of this factor is to help determine whether users get the necessary information.