STAFF PAPER

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IASB Meeting

Project	**Extractive Activities**		
Paper topic	Matters outside the scope of IFRS 6		
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Objective

1. This paper addresses matters relating to extractive activities outside the scope of IFRS 6 *Exploration for and Evaluation of Mineral Resources* (that is, matters relating to development and production activities).

2. The objective of this paper is to present staff analysis and recommendations about whether the Board should include these matters within the scope of a project on extractive activities.

Overview

3. This paper is structured as follows:

   (a) Summary of staff analysis and recommendations (paragraphs 6–9);

   (b) Background (paragraphs 10–20); and

   (c) Staff analysis and recommendations (paragraphs 21–75).

4. There are three appendices to this paper:

   (a) Appendix A—2010 *Extractive Activities* Discussion Paper;

   (b) Appendix B—Summary of outreach and research activities; and

(c) Appendix C—Summary of targeted investor outreach.

5. The appendices reproduce relevant excerpts from or summarise information previously presented to the Board[1] and have been included for ease of reference.

Summary of staff analysis and recommendations

6. The Extractive Activities research project aims to gather evidence to help the Board decide whether to amend or replace IFRS 6. However, to better understand how entities account for extractive activities, we also asked stakeholders about difficulties they have in applying other IFRS Standards.

7. Feedback identified the following matters outside the scope of IFRS 6:

   (a) matters relating to the application of IFRS Standards (paragraphs 21–46):

      (i) IFRS 11 *Joint Arrangements* (paragraphs 23–27);

      (ii) IAS 2 *Inventories* (paragraphs 28–32);

      (iii) IAS 16 *Property, Plant and Equipment* (paragraphs 33–38); and

      (iv) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (paragraphs 39–44);

   (b) matters not specifically addressed by IFRS Standards—collaborative arrangements (paragraphs 47–60); and

   (c) disclosures not specifically required by IFRS Standards (paragraphs 61–75).

8. Based on our analysis, we recommend that the matters in this paper are not included in the scope of a project on extractive activities. We have not identified compelling evidence to suggest that the Board should address these matters as part of a project on extractive activities. We note the matters discussed in this paper would also be relevant to entities in other industries and therefore developing requirements or guidance to address these matters could have wider implications or unintended consequences for entities in other industries.

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[1] With the exception of Appendix C which is presented in ***Agenda Paper 19*** of this meeting.

9. However, many of these matters have links to other projects on the Board's active agenda including, for example the Post-Implementation Review (PIR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 and IFRS 12 *Disclosure of Interests in Other Entities* and the Third Agenda Consultation. Consequently, we have informed the respective project teams of any relevant feedback.

Background

10. The Extractive Activities research project has occurred in multiple stages since its commencement in 2018 as follows:

    (a) Stage 1—review of 2010 *Extractive Activities* Discussion Paper (Discussion Paper);

    (b) Stage 2—outreach and research activities; and

    (c) Stage 3—targeted investor outreach.

11. The following paragraphs summarise key messages from these different stages.

Proposals in the Discussion Paper

12. In relation to matters outside the scope of IFRS 6, the Discussion Paper proposed disclosure objectives and requirements that primarily related to the disclosure of information about reserves and resources (see also ***Agenda Paper 19E*** of this meeting). Paragraphs A3 and A5 of Appendix A lists the proposed disclosure objectives and requirements not considered by ***Agenda Paper 19E*** of this meeting.

13. The Discussion Paper also considered disclosure proposals put forward by the Publish What You Pay (PWYP) coalition of non-governmental organisations, in particular, that entities undertaking extractive activities should disclose, in their financial reports, the following information on a country-by-country basis:

    (a) the payments made to governments (which could be in cash or in kind); and

    (b) other information, including reserve quantities, production quantities and production revenues, and costs incurred in development and production.

14. However, the Discussion Paper did not express a view on whether payments to governments should be disclosed, and if disclosed, whether that disclosure should be made on a country-by-country basis.

15. Appendix A provides further details on, and summarises feedback regarding, these proposals.

Key messages from outreach and research

16. As part of outreach, we asked stakeholders:

    (a) if they are aware of application matters, outside the scope of IFRS 6, that are challenging for entities with extractive activities; and

    (b) whether users get the necessary information from financial statements.

17. Many stakeholders, in particular preparers and national standard-setters, identified the following:

    (a) matters relating to the application of IFRS Standards (paragraphs 21–46);

    (b) matters not specifically addressed by IFRS Standards—in particular, accounting for collaborative arrangements (paragraphs 47–60); and

    (c) disclosures not specifically required by IFRS Standards (paragraphs 61–75).

18. Some preparers and national standard-setters did not expect standard-setting activity to address these matters. However, some other preparers and national standard-setters suggested developing requirements or guidance to address these matters. These stakeholders suggested addressing these matters either through the applicable Standards themselves or a separate standard addressing all extractive activities (that is, not just exploration and evaluation (E&E) activities currently in the scope of IFRS 6).

19. Furthermore, we observed some jurisdictions have begun implementing the principles of PWYP (in particular, the requirement to disclose payments to governments).

20. Appendices B and C provide further details on these matters.

Staff analysis and recommendations

Matters relating to the application of IFRS Standards

21. Feedback from stakeholders identified specific application matters related to:

    (a) IFRS 11 (paragraphs 23–27);

    (b) IAS 2 (paragraphs 28–32);

    (c) IAS 16 (paragraphs 33–38); and

    (d) IAS 37 (paragraphs 39–44).

22. It is important to note that in analysing feedback, we considered only those matters that a few or more stakeholders identified as being particularly difficult for entities with extractive activities. We have not analysed matters identified by less than a few stakeholders.

IFRS 11 Joint Arrangements

Matters identified

23. As part of outreach, stakeholders said joint arrangements are common and highlighted application challenges in applying IFRS 11, particularly in combination with IFRS 16 *Leases*. More specifically, a few preparers were concerned about unintended consequences of the March 2019 Agenda Decision *Liabilities in relation to a Joint Operator's Interest in a Joint Operation* (March 2019 Agenda Decision). These preparers said (a) in their view, the subsequent accounting for lease liabilities in those fact patterns would not reflect their economic substance and (b) there is uncertainty about whether the March 2019 Agenda Decision applies by analogy to other fact patterns and other liabilities.

Analysis

24. The following table summarises our analysis of this matter applying the five assessment factors[2]:

IFRS 11	
Assessment factor	**Analysis**
Relevance	***Does the matter affect all entities or only those with extractive activities?*** The matter is not unique to entities with extractive activities. Although common in the extractive industries, entities in other industries, such as the pharmaceuticals industry, might also enter into similar arrangements.

[2] Refer to ***Agenda Paper 19B*** of this meeting for discussion on the assessment factors applied.

IFRS 11	
Assessment factor	**Analysis**
Scope of IFRS 6	***Does the matter relate to E&E activities or to activities outside the scope of IFRS 6?*** The matter could be relevant to all extractive activities, including E&E activities.
Diversity	***Does the matter give rise to diversity in the accounting for similar transactions?*** Feedback suggests there could be diversity between entities with extractive activities. However, based on outreach and research to date, we are unable to assess whether any differences in the accounting reflects differences in facts and circumstances, or whether similar arrangements are being accounted for differently. Consequently, we are unable to conclude on whether diversity exists.
Effects on users	***Does the matter have a material effect on users?*** Users did not specifically identify this matter as something they had particular concerns about, however, neither did we ask users about this matter. It is important to note that we have not consulted users outside the extractive industries. Consequently, we are unable to conclude on whether the matter materially affects users.
Improvements	***Is the matter one for which the Board can significantly improve accounting (including disclosure)?*** Because we are unable to conclude on whether diversity exists and whether the matter has a material effect on users, we are unable to conclude on whether the Board can develop requirements or guidance to significantly improve the accounting.

Conclusion

25. We think the Board should not consider this matter further as part of a project on extractive activities. This is because the matter could affect other entities applying IFRS Standards, not just those with extractive activities and we have not identified compelling evidence suggesting a need to develop requirements or guidance on this matter specifically for entities with extractive activities.

26. To the extent the Board wishes to explore this matter further, it would need to undertake further outreach and research to understand (a) the extent of prevalence and diversity of this matter for other entities; and (b) the implications of developing requirements or guidance on this matter for all entities. We think such an assessment is better considered outside of a project on extractive activities.

27. Nonetheless, we understand the Board has received feedback on, and will consider this matter, as part of the PIR of IFRS 10, IFRS 11 and IFRS 12[3]. We have provided all relevant feedback on IFRS 11 matters to the PIR project team for their consideration.

IAS 2 Inventories

Matter identified

28. Stakeholders, in particular preparers and national standard-setters, said applying IAS 2—particularly when allocating costs—can be difficult because of the inherent complexity and significant uncertainty of many extractive activities. They suggested providing guidance to help appropriately allocate costs to inventory. Paragraph B22 of Appendix B includes some specific examples provided.

[3] See paragraphs 28–30 of ***July 2021 Agenda Paper 7B***.

Analysis

29. The following table summarises our analysis of the matter applying the five assessment factors:

IAS 2	
Assessment factor	**Analysis**
Relevance	***Does the matter affect all entities or only those with extractive activities?*** The allocation of costs to inventory is not unique to entities with extractive activities. In our view, although the examples in paragraph B22 of Appendix B are commonly experienced by entities with extractive activities, they are not unique to those entities. For example, entities in manufacturing and agriculture industries can also: • produce co-products and by-products; • monetise waste products; and • have periods of abnormally low activity.
Scope of IFRS 6	***Does the matter relate to E&E activities or to activities outside the scope of IFRS 6?*** An entity with extractive activities applies IAS 2 only to development and production activities (that is, inventory accounting would occur only after E&E activities have been completed). Consequently, the allocation of costs to inventory is relevant only to activities outside the scope of IFRS 6.
Diversity	***Does the matter give rise to diversity in the accounting for similar transactions?*** Feedback suggests there may be diversity between entities with extractive activities. However, based on the outreach and research to date, we are unable to assess whether any differences in the accounting reflects differences in facts and

IAS 2	
Assessment factor	**Analysis**
	circumstances, or whether similar facts and circumstances are being accounted for differently. Consequently, we are unable to conclude on whether diversity exists.
Effects on users	***Does the matter have a material effect on users?*** Users did not specifically identify this matter as something they had particular concerns about, however, neither did we ask about this matter. It is important to note that we have not consulted with users outside the extractive industries. Consequently, we are unable to conclude on whether the matter materially affects users.
Improvements	***Is the matter one for which the Board can significantly improve accounting (including disclosure)?*** Because we are unable to conclude on whether diversity exists and whether the matter has a material effect on users, we are unable to conclude on whether the Board can develop requirements or guidance to significantly improve the accounting.

Conclusion

30. We think the Board should not consider this matter further as part of a project on extractive activities. This is because the matter could affect other entities applying IFRS Standards, not just those with extractive activities and we have not identified compelling evidence suggesting a need to develop requirements or guidance on this matter specifically for entities with extractive activities.

31. To the extent the Board wishes to explore this matter further, it would need to undertake further outreach and research to understand (a) the extent of prevalence and diversity of this matter for other entities; and (b) the implications of developing requirements or guidance on this matter for all entities. We think such an assessment is better considered outside of a project on extractive activities.

32. Nonetheless, the Board has published the Request for Information *Third Agenda Consultation* (RFI) which is seeking feedback to help the Board determine how to prioritise its activities and what new projects to add to its work plan for 2022–2026. The RFI identified the accounting for inventory and cost of sales as a matter that could be addressed in a potential project[4]. We think the feedback we have received on this matter would be best considered together with other feedback the Board may receive regarding inventory and cost of sales through the RFI and have accordingly provided the relevant feedback to the Third Agenda Consultation project team.

IAS 16 Property, Plant and Equipment

Matters identified

33. Stakeholders, in particular preparers and national standard-setters, said applying the requirements for depreciation in IAS 16 to assets used in the development and production of minerals and oil and gas is complex. This is because, for example:

    (a) the life of a mine often exceeds the depreciation rate applied—for example, if replacement reserves are found several years after a mine has been in operation, the life of mine could be extended for several years depending on the size of the replacement reserve (that is, assets for which the useful life can extend beyond what has been forecasted by management);

[4] See paragraphs B27–B29 of the RFI.

(b) the calculation of useful life and depreciation rates is complex when applying the units-of-production method because estimates of available minerals and oil and gas change regularly, for example, because of changing commodity prices (that is, assets for which underlying estimates are subject to volatility); and

(c) the underlying inputs used in calculating depreciation can differ—for example, as discussed in ***Agenda Paper 19E*** of this meeting, entities applying the units-of-production depreciation method can use different combinations of reserve and resource quantities as inputs when calculating depreciation (that is, assets for which underlying estimates of production are subject to management's judgement).

34. Stakeholders, in particular a few national standard-setters, also said there is uncertainty about when an asset under construction becomes 'available for use'.

Analysis

35. The following table summarises our analysis of these matters applying the five assessment factors:

IAS 16	
Assessment factor	**Analysis**
Relevance	***Does the matter affect all entities or only those with extractive activities?*** The matters are not unique to entities with extractives activities because, for example: • entities in nuclear power, energy and telecommunications industries might also use assets for which the useful life can extend beyond that forecasted by management (that is, assets that have unusually long lives); • entities in agriculture industries might use estimates that are subject to significant volatility, such as commodity prices (or similar), when applying the units-of-production depreciation method;

IAS 16	
Assessment factor	**Analysis**
	• entities in manufacturing and agriculture industries might also make similar judgements about the 'units' over which the asset will be depreciated when applying the units-of-production depreciation method (that is, management will make similar judgements about the likelihood of 'units' that will be produced over the useful life of the asset and what level of certainty is appropriate to base those judgements on); and • entities in construction industries might also make similar judgements when determining the point at which an asset under construction becomes 'available for use'.
Scope of IFRS 6	***Does the matter relate to E&E activities or to activities outside the scope of IFRS 6?*** The matters apply to assets in the scope of IAS 16 and hence are outside the scope of IFRS 6. However, an entity depreciates property, plant and equipment throughout the life of a mine or oil and gas field and additional E&E activities might occur during that life which could affect the units-of-production calculation. Consequently, the matters could be affected by E&E activities—for example, if an entity discovers additional mineral reserves close to an existing mine site, the 'units' over which relevant assets are depreciated may increase.
Diversity	***Does the matter give rise to diversity in the accounting for similar transactions?*** Feedback suggests that there may be diversity between entities with extractive activities. However, based on outreach and research to date, we are unable to assess whether any differences in the accounting reflects differences in the facts and circumstances, or whether similar facts and circumstances are being accounted for differently. Consequently, we are unable to conclude on whether diversity exists. We think a number of the matters could relate more to the application of judgement depending on the particular facts and circumstances however, we would need to research further to confirm whether this is true.

IAS 16	
Assessment factor	**Analysis**
Effects on users	***Does the matter have a material effect on users?*** Users did not specifically identify these matters as something they had particular concerns about, however, neither did we ask about these matters. It is important to note that we have not consulted with users outside the extractive industries. Consequently, we are unable to conclude on whether the matters materially affect users.
Improvements	***Is the matter one for which the Board can significantly improve accounting (including disclosure)?*** Because we are unable to conclude on whether diversity exists for the matters identified and whether the matters have a material effect on users, we are unable to comment on whether the Board can develop requirements or guidance to significantly improve the accounting.

Conclusion

36. We think the Board should not consider these matters further as part of a project on extractive activities. This is because the matters could affect other entities applying IFRS Standards, not just those with extractive activities and we have not identified compelling evidence suggesting a need to develop requirements or guidance on these matters specifically for entities with extractive activities.

37. To the extent the Board wishes to explore these matters further, it would need to undertake further outreach and research to understand (a) the extent of prevalence and diversity of these matters for other entities; and (b) the implications of developing requirements or guidance on these matters for all entities. We think such an assessment is better considered outside of a project on extractive activities.

38. Nonetheless:

(a) we think these matters would be better considered as part of the Board's considerations about any new projects to add to its work plan pursuant to the Third Agenda Consultation. Accordingly, we have provided the relevant feedback to the Third Agenda Consultation project team.

(b) we note the Board recently considered, but decided not to, clarify when an asset is available for use as part of *Property, Plant and Equipment: Proceeds before Intended Use*, which amended IAS 16 (see paragraphs BC16P–BC16R of IAS 16).

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Matters identified

39. Stakeholders, in particular preparers and national standard-setters, said it can be difficult to apply IAS 37 to decommissioning provisions. In their view, lack of specific guidance can lead to diversity in practice. For example, these stakeholders said there is:

(a) diversity in recognising and measuring decommissioning provisions given:

(i) the uncertainty regarding the extent and amount of decommissioning required in future (that is, long-term uncertainty); and

(ii) the significant judgements needed to determine which costs to include in the measurement of the provision, for example security costs, maintenance costs, ongoing environmental monitoring and employee termination costs; and

(b) diversity in the discount rate used when recognising and measuring decommissioning provisions.

Analysis

40. The following table summarises our analysis of the matters applying the five assessment factors:

IAS 37	
Assessment factor	**Analysis**
Relevance	***Does the matter affect all entities or only those with extractive activities?*** The matters are not unique to entities with extractives activities because entities in other industries, such as nuclear power, telecommunications and agriculture, might also have decommissioning obligations subject to long-term uncertainty.
Scope of IFRS 6	***Does the matter relate to E&E activities or to activities outside the scope of IFRS 6?*** The matters refer to liabilities outside the scope of IFRS 6. However, decommissioning provisions can be affected by E&E activities—for example, if E&E activities were to identify additional reserves or resources, an entity might have to adjust underlying estimates used to calculate the decommissioning provision.
Diversity	***Does the matter give rise to diversity in the accounting for similar transactions?*** Feedback suggests that there may be diversity between entities with extractive activities. However, based on the outreach and research to date, we are unable to assess whether any differences in the accounting reflects differences in the facts and circumstances, or whether similar facts and circumstances are being accounted for differently. Consequently, we are unable to conclude on whether diversity exists.

IAS 37	
Assessment factor	**Analysis**
Effects on users	***Does the matter have a material effect on users?*** Users did not specifically identify the matters as something they had particular concerns about, however, neither did we ask about these matters. It is important to note that we have not consulted with users outside the extractive industries. Consequently, we cannot conclude on whether the matters identified materially affects users.
Improvements	***Is the matter one for which the Board can significantly improve accounting (including disclosure)?*** Because we are unable to conclude on whether diversity exists and whether the matters have a material effect on users, we are unable to comment on whether the Board would be able to develop requirements or guidance to significantly improve the accounting.

Conclusion

41. We think the Board should not consider these matters further as part of a project on extractive activities. This is because the matters could affect other entities applying IFRS Standards, not just those with extractive activities and we have not identified compelling evidence suggesting a need to develop requirements or guidance on these matters specifically for entities with extractive activities.

42. To the extent the Board wants to explore these matters further, it would need to undertake further outreach and research to understand (a) the extent of prevalence and diversity of these matters for other entities; and (b) the implications of developing requirements or guidance on these matters for all entities. We think such an assessment is better considered outside of a project on extractive activities.

43. Nonetheless, we note that the Board currently has on its active agenda the Provisions—Targeted Improvements project (Provisions project). In 2018 the Board issued the revised *Conceptual Framework for Financial Reporting* and is now applying the concepts set out in that document to develop proposals to amend IAS 37. The Board is also developing proposals to clarify two aspects of the requirements in IAS 37 for measuring provisions:

(a) whether a provision for an obligation to deliver goods or services should comprise only the incremental costs of fulfilling the obligation or also include an allocation of other directly related costs; and

(b) whether the rate at which an entity discounts a provision for the time value of money should reflect the entity's own credit risk, that is, the possibility that it may fail to fulfil its obligation.

44. Although we acknowledge not all matters identified by stakeholders are within the scope of the Provisions project, we expect that any clarifications the Board proposes would be relevant to the accounting for decommissioning provisions. Accordingly, and also because the matters identified are not unique to entities with extractive activities, we think the matters would be better considered as part of the Provisions project. We have therefore passed on the relevant feedback to the Provisions project team.

Staff recommendation

45. Because the matters in paragraphs 23–44 are also relevant to entities in other industries and could have wider implications, we recommend not including these matters in the scope of a project on extractive activities. We acknowledge that several of the matters require entities to make difficult judgements and these may be more difficult for entities with extractive activities because of the nature of those activities. However, we have not identified compelling evidence suggesting a need to develop requirements or guidance on these matters specifically for entities with extractive activities.

46. Nonetheless, as noted in our analysis, many of the matters in paragraphs 23–44 have links to other projects on the Board's active agenda. Consequently, we have passed on the relevant feedback to the respective project teams.

Question 1 for the Board
Does the Board agree with our recommendation to not consider the matters in paragraphs 23–44 further as part of a project on extractive activities?

Matters not specifically addressed by IFRS Standards—collaborative arrangements

Matter identified

47. Stakeholders said collaborative arrangements are common in the extractive industries. The national standard-setters whose staff helped to develop the Discussion Paper said entities are engaging in new and more complex types of collaborative arrangements. Paragraph B28 of Appendix B includes examples of collaborative arrangements which stakeholders specifically mentioned.

48. Stakeholders, in particular preparers and national standard-setters, suggested developing requirements or guidance specifying how entities with extractive activities should account for collaborative arrangements because there is uncertainty about how to account for such arrangements. This is because the accounting often requires the application of multiple IFRS Standards and there is uncertainty about how these IFRS Standards interact. For example, some stakeholders said:

    (a) depending on the facts and circumstances (including the specific terms and conditions of the arrangement), collaborative arrangements may be outside the scope of IFRS 11, for example, because of a lack of joint control—for such arrangements, stakeholders said it is not always clear which IFRS Standards apply and therefore similar arrangements may be accounted for differently; and

    (b) it is not always clear whether and how IFRS 9 *Financial Instruments* or IFRS 15 *Revenue for Contracts with Customers* apply to relevant collaborative arrangements such as streaming arrangements—that is whether the arrangement is a revenue generating contract, a financing arrangement or a combination of both.

49. On the other hand, a few preparers said although they agree collaborative arrangements could be complex, this does not in itself necessitate significant changes to IFRS Standards.

50. We understand these collaborative arrangements are generally risk-sharing arrangements (which are common because of the inherent uncertainty and riskiness of

extractive activities) and tend to be complex because they involve multiple parties, are generally highly fact specific and can be subject to multiple IFRS Standards.

Analysis

51. The following paragraphs summarise our analysis of the matter applying the five assessment factors.

Relevance—does the matter affect all entities or only those with extractive activities?

52. We agree collaborative arrangements are commonly used in the extractive industries. However, such arrangements can also be entered into by entities in other industries which might also be subject to high risks such as pharmaceuticals and agriculture.

Scope of IFRS 6—does the matter relate to E&E activities or to activities outside the scope of IFRS 6?

53. Collaborative arrangements, such as those listed in paragraph B28 of Appendix B, can be entered into as part of an entity's E&E, development and production activities, and can encompass some or all of these activities.

Diversity—does the matter give rise to diversity in the accounting for similar transactions?

54. Although we have not specifically researched how entities account for collaborative arrangements, feedback suggests diversity may exist. However, we are unable to conclude whether differences in the accounting for collaborative arrangements reflects differences in facts and circumstances (including the terms and conditions of the arrangements) or reflects diversity in accounting for similar arrangements.

Effects on users—does the matter have a material effect on users?

55. Users did not specifically identify this matter as something that they had particular concerns about. However, we did not specifically ask users about the accounting for collaborative arrangements.

56. It is important to note that we have not consulted with users outside the extractive industries.

57. Consequently, we are unable to conclude on whether the matter materially affects users.

Improvements—is the matter one for which the Board can significantly improve accounting (including disclosure)?

58. We think any potential improvements in the accounting for collaborative arrangements could be limited because of the variety in, and differing nature of, collaborative arrangements entered into and the highly specific nature of each arrangement. We have also been unable to conclude on whether the matter materially affects users.

59. However, we understand the Board has received feedback on, and will consider whether to address the accounting for, collaborative arrangements as part of the PIR of IFRS 10, IFRS 11 and IFRS 12[5].

Staff recommendation

60. We recommend not considering this matter further as part of a project on extractive activities. This is because:

    (a) as explained in paragraph 58, we think any potential improvements could be limited;

    (b) the matter could affect all entities applying IFRS Standards, not just those with extractive activities; and

    (c) the Board is already considering whether to address the accounting for collaborative arrangements as part of its PIR of IFRS 10, IFRS 11 and IFRS 12. We have therefore provided the relevant feedback to the PIR project team.

Question 2 for the Board
Does the Board agree with our recommendation to not consider collaborative arrangements further as part of a project on extractive activities?

[5] See paragraphs 5–16 of ***July 2021 Agenda Paper 7B***.

Disclosures not specifically required by IFRS Standards[6]

Matter identified

61. Consistent with the Discussion Paper, as part of more recent outreach stakeholders said entities with extractive activities often disclose information beyond that specifically required by IFRS Standards. For example, some stakeholders said such entities often disclose non-GAAP, climate-related and cash measures, such as 'cash cost per treated tonne' and 'cost of production per tonne', because they provide useful information.

62. Furthermore, stakeholders, including users, said information about an entity's environmental, social and corporate governance (ESG) related matters is important.

Analysis

63. Applying the five assessment factors, the following analysis considers whether the Board should develop disclosure objectives and requirements as part of a project on extractive activities.

Relevance—does the matter affect all entities or only those entities with extractive activities?

64. Disclosures about an entity's development and production activities beyond those specifically required by IFRS Standards are unique to entities with extractive activities. However, the type of information stakeholders viewed as being important (such as non-GAAP and cash measures and ESG related disclosures) is not unique to entities with extractive activities.

Scope of IFRS 6—does that matter relate to E&E activities or to activities outside the scope of IFRS 6?

65. Disclosures about an entity's extractive activities beyond those specifically required by IFRS Standards are relevant to all extractive activities, including E&E activities. Some preparers provided examples of such disclosures, for example:

    (a) costs to explore (relates to E&E activities);

[6]This analysis does not include disclosures relating to reserve and resource information. Reserve and resource information has been analysed separately in ***Agenda Paper 19E*** of this meeting. It also does not include disclosures relating to E&E expenditure and activities in the scope of IFRS 6 which have been analysed separately in ***Agenda Paper 19C*** of this meeting.

(b) cost of production per mining unit (relates to production activities); and

(c) net debt and other debt ratios such as EBIT and EBITDA (relate to all extractive activities).

Diversity—does the matter give rise to diversity in the accounting for similar transactions?

66. Stakeholders said entities with extractive activities commonly disclose information beyond that required by IFRS Standards. As discussed earlier, preparers provided a diverse range of examples of such information provided either as part of, or outside, financial statements. In particular, preparers identified three primary reasons for disclosing such information:

(a) their industry peers disclose similar information;

(b) jurisdictional regulatory requirements mandate disclosure of that information in or outside financial statements; and

(c) users request that information.

67. Consequently, entities disclose a diverse range of information about their extractive activities both in and outside financial statements.

Effects on users—does the matter have a material effect on users?

68. Some stakeholders, including users, identified specific information about all of an entity's extractive activities (including E&E activities) that is disclosed by entities with extractive activities (because users find the information useful) but that are not specifically required by IFRS Standards. However, some stakeholders, including users, did not expect standard-setting to address the diverse range of disclosures entities with extractive activities make.

69. It is important to note that we have not specifically asked users about:

(a) whether additional disclosures about an entity's development and production activities should be required; and

(b) which additional disclosures about an entity's development and production activities materially affects them.

70. Consequently, we are unable to conclude on which, and whether, such disclosures materially affect users.

Improvements—is the matter one for which the Board can significantly improve accounting (including disclosure)?

71. Similar to the proposals in the Discussion Paper, the Board could consider developing disclosure objectives and requirements for entities with extractive activities. Based on the outreach and research to date, we are unable to conclude whether such proposals would significantly improve the accounting.

72. However:

 (a) the Board has active projects which seek to improve disclosure of similar information (such as that information identified in paragraphs 61–62) for all entities, including those with extractive activities:

  (i) the Primary Financial Statements project—in response to users' concerns about the comparability and transparency of performance reporting, the Board is proposing requirements for presentation and disclosure in financial statements, with a focus on the statement of profit or loss.

  (ii) the Management Commentary project—the Board is developing proposals to revise IFRS Practice Statement 1 *Management Commentary*. The revised IFRS Practice Statement 1 is intended to help entities prepare management commentary that better meets the information needs of users.

 (b) as part of the Disclosure Initiative—Targeted Standards-level Review of Disclosures project, the Board is testing a new approach to developing disclosure objectives and requirements in individual Standards. The objective of the approach is to better enable stakeholders to (i) enhance their use of judgement when preparing financial statement disclosures; and (ii) provide more useful information.

 (c) we understand several jurisdictions already require entities with extractive activities to report on, separately from the financial statements, the following:

  (i) payments to governments (that is, disclosure relevant to the PWYP initiative);

(ii) information about an entity's operations when those operations could involve or be affected by conflict resources;

(iii) expected cash flows for the next 12-18 months;

(iv) information under the continuous disclosure obligations of some stock exchanges (for example, in Australia);

(v) corporate governance issues such as key milestones on safety; and

(vi) issues related to sustainability and climate change.

73. We also note that the Trustees of the IFRS Foundation are working toward setting up an international sustainability standards board (within the existing governance structure of the IFRS Foundation) which will seek to develop global sustainability standards.

Staff recommendation

74. We recommend not considering this matter further as part of a project on extractive activities.

75. We have provided relevant feedback on this matter to the project teams for the Primary Financial Statements project, the Management Commentary project and the Trustees' work on sustainability reporting.

Question 3 for the Board
Does the Board agree with the staff recommendation to not consider this matter further as part of a project on extractive activities?

Appendix A—2010 *Extractive Activities* Discussion Paper[7]

A1. Matters outside the scope of IFRS 6 were analysed, and proposals developed, as part of three broad topics in Discussion Paper:

(a) disclosure objectives (paragraphs A3–A4);

(b) disclosure of specific information (paragraphs A5–A6); and

(c) Publish What You Pay (paragraphs A7–A13).

A2. The Discussion Paper also proposed an approach for the recognition and measurement of E&E assets (see also ***Agenda Paper 19C*** of this meeting). Consequently, part of the analysis in the Discussion Paper also considered the measurement[8] of those assets after an entity had completed its E&E activities (that is, the Discussion Paper considered how any E&E asset could be depreciated and impaired after an entity had completed its E&E activities). However, the Discussion Paper did not:

(a) conclude on an approach to the treatment of E&E assets after E&E activities had been completed; or

(b) ask stakeholders about the analysis relating to the depreciation and impairment of the E&E assets.

Hence there is only limited discussion of matters outside the scope of IFRS 6 in the Discussion Paper.

Disclosure objectives

Discussion Paper proposals

A3. Chapter 5 of the Discussion Paper proposed that the disclosure objectives for extractive activities should be to enable users to evaluate:

(a) the value attributable to an entity's minerals or oil and gas properties;

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

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

Summary of feedback

A4. Most respondents supported the proposed disclosure objectives.

[7] See ***October 2010 Agenda Paper 7A*** and ***Agenda Paper 7B***.

[8] The Discussion Paper also considered whether property, plant and equipment should be recognised separately from the legal rights to extract the minerals or oil and gas during development and production phases.

Disclosure of specific information[9]

Discussion Paper proposals

A5. The Discussion Paper proposed the types of information that should be disclosed. The majority of these disclosure proposals related to quantities of reserves and resources (see ***Agenda Paper 19E*** of this meeting). The other proposals related to information about activities outside the scope of IFRS 6:

(a) separate identification of production revenues by commodity; and

(b) separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).

Summary of feedback

A6. Many respondents expressed general support for the disclosure of information about revenues and costs, although views differed on the level of detail to be provided.

Publish What You Pay (PWYP)

Discussion Paper analysis

A7. Chapter 6 of the Discussion Paper considered the disclosure proposals put forward by the PWYP coalition of non-governmental organisations[10]. The PWYP coalition seeks to improve the accountability of governments of resource-rich developing countries for the management of revenues received from minerals or oil and gas entities. To achieve its objective, the PWYP coalition proposes that entities undertaking extractive activities should be required to disclose, in their financial reports, the following information on a country-by-country basis:

(a) the payments made to governments (which could be in cash or in kind); and

(b) other information, including reserve quantities, production quantities and production revenues, and costs incurred in development and production.

A8. The Discussion Paper considered the proposals from the perspective of whether, and to what extent, capital providers (as primary users of financial statements) need this information in order to gain an adequate understanding of the future cash flows, and the risks to those cash flows, which may be generated by a minerals or oil and gas entity. The Discussion Paper did not express a view on whether payments to

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[9] ***Agenda Paper 19E*** of this meeting analyses the disclosure of reserve and resource information in financial statements.

[10] PWYP is a global movement working to ensure that revenues from oil, gas and mining help improve people's lives. They currently have more than 1000 member organisations and 51 national coalitions and campaign for an open and accountable extractives sector (https://www.pwyp.org/).

governments should be disclosed, and if they are disclosed, if they should be disclosed on a country-by-country basis.

Summary of feedback

Scope of financial reporting

A9. Comment letters indicated general support for the objectives of PWYP. However, respondents said the PWYP disclosures were not within the scope of financial reporting because:

(a) the primary users of that information would be non-governmental organisations and other special interest groups; and

(b) meeting their information needs is a public policy matter rather than a financial reporting matter.

A10. Many of these respondents regarded the disclosures to be within the scope of corporate social responsibility (CSR) reporting.

A11. However, the supporters of PWYP disclosure proposals expressed concern that the project team's assessment of the proposals was too narrow because it considered only the benefits to investors and lenders and did not also consider the substantial benefits that may be realised from improved governance and accountability.

Cost-benefit considerations

A12. Respondents identified the following benefits to investors and lenders of the disclosure of payments made to governments:

(a) an entity's payments to governments may be used to model and benchmark that entity's relative exposure to country-specific risks;

(b) information on the size and timing of payments may provide insight into whether and how these payments will influence development costs or operating cash flow; and

(c) investment risk and reputational risk assessments are more critical to entities that have assets and operations that either are concentrated in a small number of countries or are located in countries that rely heavily on extractive revenues.

A13. However, respondents from industry noted that many entities currently disclose qualitative information in management commentary and other reports that can be used to make assessments of material investment and reputational risks. They queried whether the benefits of disclosing such payment information in the financial statements would exceed the costs of its preparation. In particular, respondents were concerned about:

(a) existing accounting systems which may not be able to readily capture all of the payments made by the entity to governments. For example, the taxes and charges may be levied separately or included in the cost of goods sold.

(b) disclosing payments to governments on a country-by-country basis would result in the disclosure of excessively detailed information that may not be material to the entity (in terms of size or nature).

(c) preparing and auditing this information would be costly, time consuming, and would therefore slow down the entire reporting process.

(d) disclosing disaggregated payment information could expose entities to the release of commercially sensitive data, which would ultimately be of detriment to investors.

Appendix B—Summary of outreach and research activities

B1. Appendix B summarises the following outreach and research activities relevant to matters identified outside the scope of IFRS 6:

(a) developments regarding proposals in the Discussion Paper (paragraphs B3–B9); and

(b) outreach with stakeholders (paragraphs B10–B33).

B2. In approaching the analysis of evidence gathered, we have grouped the evidence into key matters or topics that were consistently identified across a range of stakeholders. Consequently, we have not specifically analysed or responded to feedback about matters identified by less than a few stakeholders.

Developments regarding proposals in the Discussion Paper[11]

B3. In 2018, the Extractive Activities research project was activated. As part of this reactivation, we requested feedback from the national standard-setters who helped develop the Discussion Paper (being Australia, Canada, Norway and South Africa) about any significant developments in extractive activities since the publication of the Discussion Paper in 2010 (see also ***Agenda Paper 19*** of this meeting).

B4. These national standard-setters noted that not all analysis and proposals of, and feedback to, the Discussion Paper may still be relevant. We also performed research on developments since the Discussion Paper.

Developments regarding disclosure objectives and specific disclosures proposed in the Discussion Paper

B5. Following the issue of clarifications and guidance around the application of materiality to disclosure, entities would not be required to disclose the information required by the specific disclosures proposed in the Discussion Paper to the extent that information is immaterial. This may address concerns some respondents had regarding the specific disclosure proposals being onerous.

B6. Some of the disclosure objectives and specific disclosure proposals in the Discussion Paper may no longer be appropriate. This is because:

(a) The 2018 *Conceptual Framework for Financial Reporting* introduced a chapter on presentation and disclosure, for which there is no equivalent in the 2010 *Conceptual Framework for Financial Reporting*. In applying Chapter 7 of the 2018 *Conceptual Framework*, it is possible that the

[11] See ***September 2019 Agenda Paper 19E*** and ***Agenda Paper 19F***.

proposed disclosure objectives and requirements may no longer be appropriate because they may no longer meet the needs of users; and

(b) the way in which disclosure objectives are written has changed since 2010 and may be subject to change again based on the outcome of the Targeted Standards-level Review of Disclosures project.

B7. We also observed that stakeholder needs may have changed since 2010.

Publish What You Pay

B8. We observed that the principles of PWYP (and in particular, the requirement to disclose payments made to governments) have begun to be introduced at a jurisdictional level.

Conclusion

B9. We concluded that the analysis and proposals in the Discussion Paper, including feedback to the Discussion Paper, remain relevant and should be considered when determining the scope and objectives of any project on extractive activities.

Outreach[12]

B10. Through outreach activities, we gathered evidence about:

(a) matters relating to the application of IFRS Standards;

(b) matters not specifically addressed by IFRS Standards; and

(c) information not specifically required to be disclosed by IFRS Standards.

B11. Many stakeholders consulted provided responses to help the Board understand entities with extractive activities and their day-to-day operations, accounting and the industries in which they operate. Consequently, they said they did not expect standard-setting activity for these matters and were simply highlighting the IFRS Standards they find challenging to apply. However, some other stakeholders said the Board should provide additional guidance on some of these topics, either in the applicable IFRS Standards themselves, in an extractive activities standard or, in one case, a new standard for the topic itself (for example, a standard addressing the accounting for emission rights).

Applying other IFRS Standards

B12. Stakeholders provided feedback about requirements in the following IFRS Standards which, in their view, are difficult for entities with extractive activities to apply:

(a) IFRS 11 (paragraphs B13–B17);

[12] See ***March 2019 Agenda Paper 19*** and ***June 2020 Agenda Paper 19A***.

(b) IFRS 15 (paragraphs B18–B19);

(c) IFRS 16 (paragraphs B20–B21);

(d) IAS 2 (paragraph B22);

(e) IAS 16 (paragraphs B23–B25); and

(f) IAS 37 (paragraphs B26–B27).

IFRS 11 *Joint Arrangements*

B13. A few stakeholders, in particular preparers, explained that joint arrangements are fundamental in the extractive industries. Projects of a significant size are usually conducted together with one or more parties and these are usually in the form of a joint arrangement that is classified as a 'joint operation' applying IFRS 11.

B14. Some stakeholders expressed concern about the Interpretations Committee's **March 2019 Agenda Decision *Liabilities in relation to a Joint Operator's Interest in a Joint Operation***. In their view, the accounting treatment described in the Agenda Decision does not reflect the economic substance of the arrangement and has resulted in uncertainty about the accounting for liabilities in joint operations.

B15. Less than a few preparers said they find it difficult to, for example:

(a) distinguish between equity and liabilities in collaborative arrangements between multiple parties; and

(b) distinguish between service agreements and risk-sharing agreements.

B16. One national standard-setter said there was uncertainty about how a lead operator accounts for recoveries from partners.

B17. Consequently, some stakeholders suggested prioritising the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12.

IFRS 15 *Revenue from Contracts with Customers*

B18. Less than a few stakeholders said IFRS 15 can be difficult to apply. For example, these stakeholders say IFRS 15:

(a) should include specific guidance about accounting for provisional pricing[13] in contracts; and

(b) can be difficult to apply to profit-sharing agreements and lifting arrangements.

B19. A few preparers said there is a growing number of revenue streams in the extractives industry to which IFRS 15 does not apply.

[13] Provisional pricing is the pricing defined for a commodity when no pricing is established for a contract quantity. In such cases, final settlement is not permitted. Therefore, a provisional price is substituted for those components and quantities for which there is no pricing in the contract.

IFRS 16 *Leases*

B20. A few stakeholders said entities often have difficulties applying IFRS 16 in combination with IFRS 11 which, as discussed in paragraph B14, is commonly applicable.

B21. Less than a few stakeholders said entities with extractive activities often enter into complex contracts for items such as power supply, earth moving, warehouse rental and other service agreements. In their view it can be difficult to determine whether such contracts contain a lease.

IAS 2 *Inventories*

B22. A few stakeholders said IAS 2 can be difficult to apply. In their view, the Board should provide guidance for entities with extractive activities to help them appropriately allocate costs to inventory. These stakeholders said costs can be difficult to allocate because of the complexity and significant uncertainty inherent in extractive activities. These stakeholders provided the following specific examples:

(a) allocating costs to co-products or by-products;

(b) allocating costs to inventory in periods of abnormally low production; and

(c) accounting for mineral stockpiles which, due to economic feasibility, might only get recognised as inventory years after extraction—for example, an entity might decide that, due to the price of mineral X, it is not economically feasible to sell it so instead they stockpile mineral X as a waste product (that is, it has no book value) and sell mineral Y which was extracted and processed alongside mineral X. However, years later the price of mineral X might have increased to the point at which selling it becomes economically feasible.

IAS 16 *Property, Plant and Equipment*

B23. Some stakeholders, in particular preparers and national standard-setters, stated that, in their view, applying the requirements for depreciation to assets used in the development and production of minerals and oil and gas is complex. This is because, for example:

(a) the life of a mine often exceeds the depreciation rate applied—for example, if replacement reserves are found several years after the mine has been in operation, it could extend the life of mine for several years (depending on the size of the replacement reserve);

(b) the calculation of useful life and depreciation rates is complex when applying the units-of-production method because estimates of available minerals and oil and gas change regularly (for example, because of changing commodity prices); and

(c) the underlying inputs used in calculating depreciation can differ—for example, as discussed in ***Agenda Paper 19E*** of this meeting, entities applying the units-of-production depreciation method can use differing combinations of reserve and resource quantities as inputs when calculating depreciation.

B24. A few national standard-setters expressed uncertainty about when an asset under construction becomes 'available for use'.

B25. One preparer said entities with extractive activities are different in that they construct assets for their own use that are in-use while under construction. For example, tailings dams are simultaneously under construction and in-use.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

B26. Some stakeholders, in particular preparers and national standard-setters, said it can be difficult to apply IAS 37 to decommissioning provisions and diversity in practice can result from the lack of specific guidance in IAS 37. For example, these stakeholders said there is:

(a) diversity in how decommissioning provisions are recognised and measured given:

(i) the uncertainty regarding the extent and amount of decommissioning that will be required in future;

(ii) the significant judgements needed to determine which costs should be included in the measurement of the provision, for example security costs, maintenance costs, ongoing environmental monitoring and employee termination costs; and

(b) lack of consistency in the discount rate used when recognising and measuring decommissioning provisions.

B27. One national standard-setter said there is diversity in how entities account for the difference between the fair value of a decommissioning provision acquired in a business combination measured in accordance with IFRS 3 *Business Combinations* and its subsequent measurement in accordance with IAS 37.

Matters not specifically addressed by IFRS Standards

B28. Some stakeholders, in particular preparers and national standard-setters, provided feedback on aspects which, in their view, are unique and are not specifically addressed by IFRS Standards. For example:

(a) streaming arrangements[14]—a few stakeholders said the use of streaming contracts has increased and said there is no clear understanding of the accounting for such arrangements. For example, these stakeholders questioned if such an arrangement is a revenue generating arrangement, a financing arrangement or a combination of both. In their view, accounting for streaming arrangements often requires applying multiple IFRS Standards and the interaction of these Standards can be uncertain.

(b) farm-in/farm-out arrangements[15]—a few stakeholders observed diversity in how farm-in/farm-out arrangements are accounted for because such arrangements can include various complex elements such as risk-sharing and future payments based on reserve assessments. In their view, IFRS Standards should specifically address these arrangements.

B29. Although not unique to entities with extractive activities, less than a few stakeholders said environmental concerns have become more prevalent resulting in more countries implementing emission schemes and other nature-based solutions to counteract damage to the environment caused by extractive activities. With the withdrawal of IFRIC 3 *Emission Rights* and no subsequent standard-setting in this area, they observed diversity in the accounting for emission credits.

Information not specifically required to be disclosed by IFRS Standards

B30. Many stakeholders, particularly preparers, noted that it is common for entities with extractive activities to make voluntary disclosures, in addition to those required by IFRS Standards. These stakeholders said, in their view, such voluntary disclosures focus on non-GAAP and cash measures because these provide useful information.

B31. In particular, preparers noted that they disclose non-GAAP measures, generally outside their financial statements, at users' request, for example:

(a) information related to cash flows such as 'free cash flows' and 'cash cost per treated tonne';

(b) information related to the entity's debt such as 'net debt' and 'net debt to EBITDA';

(c) cost metrics such as 'all-in-sustaining-cost' and 'costs to explore';

[14] A streaming contract is an agreement that provides, in exchange for an upfront deposit payment, the right to purchase all or a portion of a mine's production, at a price determined for the life of the transaction by the purchase agreement.

[15] A farm-in/farm-out contract is a contract in which the farmor agrees to assign an interest to a farmee in exchange for certain services—once these services have been rendered, the farmee has earned what is known as an 'assignment'. This is a farm-out from the perspective of the farmor and a farm-in from the perspective of the farmee.

(d) information related to the entity's production such as 'production during the period', 'cost of production' and 'mineral reserves and resources per mining unit'; and

(e) information related to the entity's reserves such as 'reserve replacement ratios' and the estimated useful life of reserves.

B32. Some preparers said they also provide information about:

(a) provisions for decommissioning and other costs in addition to that required by IAS 37;

(b) the judgements and assumptions used when preparing reserve and resource estimates;

(c) information about the status of significant projects; and

(d) information about the estimated fair value of the entity's different types of mineral reserves.

B33. A few other stakeholders, including users, noted that their jurisdictions also require entities to prepare and report on, separately from the financial statements, the following:

(a) payments to governments;

(b) information about an entity's operations when those operations could involve or are affected by conflict resources[16];

(c) expected cash flows for the next 12-18 months;

(d) information under the continuous disclosure obligations of some stock exchanges (for example, in Australia);

(e) corporate governance issues such as key milestones on safety; and

(f) issues related to sustainability and climate change.

[16] Conflict resources are natural resources extracted in a conflict zone and sold to perpetuate the fighting.

Appendix C—Summary of targeted investor outreach

C1. More recently, we conducted a survey and held one-to-one meetings with a range of investors to better understand their views on the diversity of accounting policies developed applying IFRS 6 and the importance of reserve and resource information. It is important to note that that those investors that provided additional feedback on their survey answers focused predominantly on larger entities (that is, entities engaged in all extractive activities) rather than smaller entities that only engaged in E&E activities.

C2. We did not specifically ask questions about matters outside the scope of IFRS 6. However, one investor said, in their view, information about environmental, social and corporate governance related matters (that is, ESG information) is more important than information about E&E expenditure or reserves and resources.