

STAFF PAPER

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Project	Extractive Activities		
Paper topic	Reserve and resource information		
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Objective

1. The objective of this paper is to present staff analysis and recommendations about reserve and resource (R&R) information. Specifically, this paper discusses whether, and how, the Board could develop requirements to disclose and use R&R information in financial statements as part of a project on extractive activities.

Overview

2. This paper is structured as follows:
 - (a) Summary of staff recommendation (paragraph 5);
 - (b) Background (paragraphs 6–19);
 - (c) Staff analysis (paragraphs 20–53);
 - (d) Staff recommendation (paragraphs 54–60).
3. There are four appendices to this paper:
 - (a) Appendix A—2010 *Extractive Activities* Discussion Paper;
 - (b) Appendix B—Summary of outreach and research activities;
 - (c) Appendix C—Summary of targeted investor outreach; and

- (d) Appendix D—Extracts from the Discussion Paper.
4. The appendices reproduce relevant excerpts from or summarise information previously presented to the Board¹ and have been included for ease of reference.

Summary of staff recommendation

5. We recommend not developing requirements for the disclosure and use of R&R information in the financial statements as part of a project on extractive activities.

Background

6. The Extractive Activities research project has occurred over multiple stages since its commencement in 2018 as follows:
- (a) Stage 1—review of the 2010 *Extractive Activities* Discussion Paper (Discussion Paper);
 - (b) Stage 2—outreach and research activities; and
 - (c) Stage 3—targeted investor outreach.
7. The following paragraphs summarise key messages from these different stages.

Proposals in the Discussion Paper

8. Paragraph 2.4 of the Discussion Paper explained that the basic concepts of a ‘reserve’ and a ‘resource’ are as follows:
- (a) reserves generally refer to the quantity of minerals or oil and gas that is estimated to be economically recoverable (that is, reserve quantities are an estimate of the aggregate future production of minerals or oil and gas);
 - (b) resources generally refer to the quantity of minerals or oil and gas that has been discovered but is not yet capable of being classified as a reserve; and

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

- (c) reserves and resources are generally classified into subcategories according to the level of confidence associated with the estimate of the reserve or resource quantities.
9. The Discussion Paper noted that assessing the financial position and performance of an entity engaged in extractive activities in order to make economic decisions requires an understanding of the entity’s minerals or oil and gas reserves and resources, which are the source of future cash flows. Consequently, the Discussion Paper proposed that:
- (a) the definitions of ‘reserve’ and ‘resource’ that should be used to develop accounting and disclosure requirements are:
 - (i) the mineral reserve and resource definitions established by the Committee for Minerals Reserves International Reporting Standards (CRIRSCO); and
 - (ii) the oil and gas reserve and resource definitions in the Petroleum Resource Management System (PRMS); and
 - (b) the information to be disclosed would include:
 - (i) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;
 - (ii) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;
 - (iii) a reconciliation of changes in the estimate of reserves quantities from year to year; and
 - (iv) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year.
10. Appendix A provides further details on, and summarises feedback regarding, these proposals.

Key messages from outreach and research

11. R&R classification systems establish standards for public reporting of R&R information—similar to IFRS Standards, these classification systems provide a comprehensive framework for the preparation and disclosure of R&R information.
12. R&R information prepared applying a classification system are prepared by geologists (and other experts, such as metallurgists and engineers) for use by other geologists, engineers and specialist investors. R&R reports are scientific and technical reports prepared for subject matter experts and are disclosed publicly.
13. The Discussion Paper and more recent outreach with stakeholders indicated that primary users of financial statements (users) find R&R information important. Some stakeholders observed differences in the jurisdictional regulatory requirements for R&R reporting and in the R&R classification systems used. A few preparers said comparability of financial statements could be affected even when R&R information prepared applying the same classification system is used as inputs for financial statement items—for example, when entities applying the same classification system use different inputs when applying the units-of-production depreciation method.
14. Outreach and research indicated that:
 - (a) R&R information is generally disclosed outside financial statements (that is, regulators appear to treat R&R information as non-financial); and
 - (b) requirements about (i) what R&R classification system to apply; (ii) what R&R information to disclose; and (iii) when to disclose R&R information can differ jurisdictionally (and some jurisdictions had no requirements).
15. Consequently, many stakeholders suggested considering whether IFRS Standards should also require disclosure of R&R information in financial statements. However, targeted outreach with investors indicated that for most users, R&R information needed for their analyses is publicly available outside financial statements for the majority of the entities they follow.
16. The Discussion Paper proposed using existing third-party definitions of ‘reserve’ and ‘resource’ in IFRS Standards. Most respondents to the Discussion Paper proposals agreed with the definitions proposed but were concerned about including such third-

party definitions in IFRS Standards. These stakeholders, and stakeholders from more recent outreach, questioned whether (a) the Board would effectively be able to do so, and (b) if doing so was within the Board's expertise and remit.

17. Research findings (including from an academic literature review) also indicated that:
 - (a) R&R information is value relevant—that is, it is positively associated with share prices; and
 - (b) R&R classification systems developed or applied by jurisdictions with significant extractive industries either align, or are moving towards aligning, with the widely accepted classification systems of CRIRSCO (for minerals) and PRMS (for oil and gas).

18. Additional concerns, primarily raised by preparers and national standard-setters, related to:
 - (a) the interaction with, and possible duplication of, or conflict with, jurisdictional regulatory requirements about R&R disclosures outside financial statements and the use of specific R&R classification systems;
 - (b) the appropriateness of using R&R information prepared applying a classification system—for example, economic assumptions and judgements used in preparing and disclosing geological data can differ from those generally used in preparing information for IFRS financial statements;
 - (c) the cost of reporting—that is, both the cost of preparing and reporting R&R information in financial statements and the increased cost of auditing such information; and
 - (d) the effect of potential R&R disclosures on state-owned entities due to the potential sensitivity of those disclosures.

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

Staff analysis

20. Our analysis considers whether, and how, the Board could develop requirements to disclose and use R&R information in financial statements as part of a project on extractive activities. In particular, we considered two specific matters being:
- (a) the availability of R&R information prepared applying R&R classification systems and disclosed outside financial statements; and
 - (b) R&R information prepared applying R&R classification systems that is used as inputs in determining financial statement items such as depreciation, impairment losses and provisions.
21. These two matters have been considered together because, should the Board develop requirements or guidance for disclosing R&R information in financial statements, or for using that information as an input in determining financial statement items, we think the Board would need to firstly define ‘reserve’ and ‘resource’. Consistent with the Discussion Paper, we also think that, in order for such R&R information to be comparable to R&R information disclosed outside financial statements, the Board would need to base any definition on existing definitions—that is, the Board would need to use definitions of ‘reserve’ and ‘resource’ that are applied by subject matter experts that prepare and use R&R reports and information. Consequently, our analysis considers the feasibility of incorporating definitions from existing classification systems into IFRS Standards.
22. The following summarises our analysis of these matters applying the five assessment factors².

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

23. R&R information is scientific and technical information relevant only to entities with extractive activities.

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

Scope of IFRS 6—does the matter relate to exploration and evaluation (E&E) activities or to activities outside the scope of IFRS 6?

24. E&E activities generally occur prior to the identification and disclosure of a reserve. Accordingly, R&R information is generally not as relevant to E&E activities and is more relevant in the context of extractive activities outside the scope of IFRS 6.

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

25. We considered potential diversity:
- (a) in R&R information disclosed applying different R&R classification systems as required by jurisdictional regulatory requirements (paragraphs 26–28); and
 - (b) in accounting for similar transactions—that is, how any diversity in R&R information that is used as inputs in estimating financial statement items might affect the comparability of financial statements (paragraphs 29–31).

Diversity in R&R classification systems

26. The Discussion Paper and more recent outreach indicated that R&R classification systems are diverse. That is:
- (a) jurisdictional regulatory requirements for R&R disclosures may be inconsistent. In particular, R&R reporting requirements can differ jurisdictionally and between minerals and oil and gas industries. These requirements could also affect the public availability of R&R information—for example, a few jurisdictions do not mandate R&R disclosures.
 - (b) R&R classification systems applied jurisdictionally may not be aligned. For example, a few preparers said the measurement of an entity’s R&R may differ depending on the classification system applied. These stakeholders said this can affect financial statement items which use this information as inputs, such as when testing assets for impairment or when applying the units-of-production depreciation method.

27. Research also indicated that:
- (a) jurisdictional R&R classification systems are moving towards alignment with the widely accepted classification systems of CRIRSCO (for minerals) and PRMS (for oil and gas). In particular, many jurisdictions with significant extractive industries require entities to apply either those classification systems or classification systems aligned with CRIRSCO and PRMS.
 - (b) jurisdictional regulatory requirements for public reporting of R&R information differ both jurisdictionally and between the extractive industries—for example, for the sample of jurisdictions we researched, we observed that:
 - (i) the R&R information required to be disclosed (in addition to disclosures required by the classification systems applied) and the frequency of those disclosures, differs jurisdictionally; and
 - (ii) generally, jurisdictional regulatory requirements to disclose R&R information for oil and gas entities appear to be more common than for minerals entities.
28. Given the specialised nature of R&R classification systems, we are unable to further comment on the alignment of R&R classification systems. That is, we are unable to conclude on whether the measurement of an entity's R&R would differ materially depending on the classification system applied. However, our research confirmed feedback suggesting diversity in the availability of R&R information.

Diversity in the accounting for similar transactions

29. Many stakeholders, in particular preparers and national standard-setters, said R&R information can be used as inputs for financial statement items subject to significant judgements and assumptions. These stakeholders said diversity can arise because the information used in the preparation of financial statements might be inconsistent even if the same classification system is applied. For example, a few preparers said depreciation calculated applying the units-of-production method might differ even if

two entities apply the same classification system. This is because the entities may calculate depreciation using³:

- (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.
30. Overall most stakeholders said they were concerned about the lack of clarity about R&R information used in financial statements. For example, a few stakeholders said entities did not disclose:
- (a) what, if any, R&R classification system they applied; and
 - (b) whether the R&R information used was consistent with that reported outside financial statements (that is, a few stakeholders were uncertain how to reconcile R&R information disclosed and/or used in financial statements with that disclosed outside financial statements).
31. Feedback suggests that there may be diversity. However, based on the outreach and research performed to date we are unable to conclude on whether diversity exists.

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

32. Targeted outreach with specialist investors (that is, investors that specialise in analysing entities with extractive activities) suggested R&R information is important, with most saying it is critical to their analyses. Evidence from the academic literature review also supports this feedback.
33. All respondents to the investor survey (Appendix C) expressed at least some concern that the comparability of R&R information could be affected by potential differences in R&R classification systems used by different jurisdictions. Many investors said R&R information supplements financial statement information. Furthermore, some

³ R&R classification systems, such as CRIRSCO and PRMS, define proved and probable R&R. This matter is also considered in *Agenda Paper 19D* of this meeting.

stakeholders, including users, said R&R information is better placed outside financial statements because, in their view, it is non-financial information that provides insights into factors affecting an entity's financial position, financial performance and its prospects for future cash flows.

34. Many stakeholders, including users, also expressed concern about inconsistencies in publicly available R&R information (that is, as indicated by research, jurisdictional regulatory requirements about R&R information required to be disclosed can differ). However, targeted outreach with investors also indicated that for most investors the R&R information they need is publicly available for a majority of the entities they follow.

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

Benefits of developing requirements or guidance

35. The primary reason to develop requirements or guidance for using and disclosing R&R information would be to improve consistency and comparability of R&R information used or disclosed in financial statements.

Approach

36. Any requirements or guidance the Board develops could clarify:
- (a) what, if any, R&R classification system to apply;
 - (b) what R&R information to use in preparing financial statements; and
 - (c) what R&R information to disclose in financial statements.
37. Consistent with the Discussion Paper (paragraph 9), we think it would be necessary to first define what is meant by 'reserve' and 'resource' (including the sub-categories such as proved and probable reserves). Consistent with the approaches considered in the Discussion Paper, the Board could:
- (a) develop new definitions; or
 - (b) base any definitions on existing classification systems.

38. We continue to agree with the Discussion Paper that the Board should not develop new definitions for the reasons set out in the Discussion Paper (see Appendix D for relevant excerpts from the Discussion Paper). Furthermore, developing new definitions:
- (a) could result in additional costs for entities and duplication of information (where those definitions and reporting requirements differ from jurisdictional regulatory requirements);
 - (b) could confuse users, especially non-subject matter experts—for example, if different measures of the same item were disclosed in and outside financial statements; and
 - (c) would require the use of subject matter experts and the definitions would need to be continually reviewed to ensure they remain ‘fit for purpose’ and align with any developments in the area.
39. Consistent with the Discussion Paper, we think the Board would need to develop definitions that are consistent with existing definitions—that is, the Board would need to use definitions of ‘reserve’ and ‘resource’ applied by subject matter experts that use R&R information (Appendix D). The Discussion Paper proposed using the definitions established by CRIRSCO (for minerals) and PRMS (for oil and gas). The Discussion Paper also proposed requiring R&R information to be disclosed (Appendix A). Although most respondents to the Discussion Paper supported the use of these definitions, most respondents also expressed concerns about whether the Board could effectively incorporate such definitions into IFRS Standards. We also considered whether the Board could instead refer directly to the definitions in commonly applied R&R classification systems such as CRIRSCO and PRMS. However:
- (a) for an entity to assert compliance with a R&R classification system, we understand the entity would need to comply with all requirements of that classification system, including any disclosure requirements. Accordingly, if the Board were to require an entity to use the definition in a particular classification system, an entity would not be able to assert compliance with that classification system unless it also complied with all requirements of that system. Requiring entities to assert compliance with a classification

system in financial statements could necessitate incorporating the entire classification system within IFRS Standards.

- (b) because R&R classification systems are generally an integrated set of requirements, it might not be feasible to separate the definitions from the remaining requirements within that classification system—however, this is something that would need to be researched further with the help of subject matter experts.

Considerations

- 40. Many stakeholders, including users, viewed R&R information as non-financial and therefore outside the scope of IFRS Standards and the Board’s remit. In considering whether to develop requirements or guidance for the disclosure and use of R&R information in financial statements, the Board would need to consider:
 - (a) increased cost (paragraphs 41–45);
 - (b) appropriateness of using R&R information prepared applying a classification system (paragraph 46);
 - (c) interaction with jurisdictional regulatory requirements (paragraphs 47–49);
 - (d) disclosure by state-owned entities (paragraph 50); and
 - (e) resource commitment (paragraphs 51–53).

Increased cost

- 41. We agree with stakeholders who said the cost of disclosing R&R information in financial statements would likely be significant. In particular, auditing such information could unduly burden small to medium sized entities that represent a substantial portion of the number of entities in the extractive industries.

Auditing R&R information in financial statements

- 42. Some stakeholders, in particular preparers and national standard-setters, said the cost of auditing financial statements could significantly increase. Auditing R&R information in financial statements would likely require an understanding of the underlying classification system and the use of specialists. We understand most R&R

information today is disclosed outside financial statements and is therefore likely to be either unaudited or subject to lower levels of assurance.

Excessive disclosures

43. Feedback indicated that requiring R&R information in financial statements could result in excessive disclosures that could obscure other material information. This is because:
- (a) the additional disclosures needed to support the R&R information (either as a result of the requirements of the underlying classification systems or existing IFRS requirements about significant judgements and assumptions) could be significant; and
 - (b) R&R information is specialised and could obscure other material information, particularly for users who may not have the relevant expertise to understand and use R&R information.
44. Even if the Board were to require entities to provide only summary R&R information (as was proposed in the Discussion Paper) entities might still need to disclose the supporting information required to comply with the relevant classification system (either in or outside financial statements). For example, even if this supporting information was not explicitly required by the Board, we think the summary information might need to be read in the context of all disclosures required by the relevant classification system to avoid being misleading. However, further research would be needed to confirm how detailed any R&R information disclosed in the financial statements would need to be. This is because:
- (a) a few users said they wanted more summarised R&R information (presented in a particular way) than is currently disclosed outside financial statements (such as a breakdown of reserves by type of mineral resource the entity is extracting); and
 - (b) targeted investor outreach with specialist users indicated they use other detailed R&R information required to be disclosed by the relevant classification systems.

Duplication of R&R information

45. Outreach and research indicated that jurisdictions with significant extractive industries have regulatory requirements identifying which R&R classification systems to apply, what R&R information to disclose outside financial statements, and the frequency of these disclosures. Consequently, any disclosure requirements the Board proposes could result in information being duplicated. Additionally, if the Board required R&R information to be prepared on a different basis to the relevant jurisdictional regulatory requirements, or to be presented in a different way, this could confuse users.

Appropriateness of using R&R information prepared applying a classification system

46. R&R information prepared applying a classification system is prepared for a purpose different from that of financial statements and might not always be appropriate for financial statements. Stakeholders, in particular preparers and national standard-setters, said:
- (a) R&R information is non-financial—many preparers, users and national standard-setters said, although R&R information is important, they view that information as being non-financial which is, as a result, better placed outside financial statements;
 - (b) users of financial statements are not necessarily the same as users of R&R reports—although outreach and research indicated that some overlap exists in that some specialist investors use both the financial statements and R&R reports, R&R reports are also prepared for use in investment analysis and the development, ongoing maintenance and sustainability of a mine or an oil or gas field and are therefore not intended for use only by users of financial statements; and
 - (c) R&R reports are prepared by relevant experts such as geologists, metallurgists and engineers who are not usually involved with the preparation of financial statements. As observed by a few stakeholders, geologists are generally required to exercise greater conservatism in preparing R&R reports than is generally applied when preparing financial statements.

Interaction with jurisdictional regulatory requirements

47. We agree with stakeholders that said it will be challenging to balance different jurisdictional views about (a) what R&R classification systems to apply; and (b) what R&R information to disclose.
48. Many stakeholders observed that when R&R disclosures are important to users, such disclosures are either:
 - (a) required by, and subject to, jurisdictional regulatory requirements;
 - (b) subject to regulatory requirements in a jurisdiction when made voluntarily—for example, some jurisdictions do not mandate such disclosures, but include requirements that apply when those disclosures are voluntarily provided; or
 - (c) voluntarily provided.
49. Research also indicated that most jurisdictions with significant extractive industries:
 - (a) are already moving towards aligning the R&R classification systems used in their jurisdictions with the widely accepted global classification systems of CRIRSCO and PRMS; and
 - (b) require the disclosure of, at minimum, information about an entity’s reserves.

Disclosure by state-owned entities

50. A few national standard-setters said some entities in the extractive industries are state-owned or involve significant state investment. They said these types of entities might be unable to disclose R&R information as a matter of national security and any requirements developed in this regard could be problematic for such entities.

Resource commitment

51. As discussed in paragraph 38, we think the Board would need to base any definition on existing definitions—that is, the Board would need to use definitions of ‘reserve’ and ‘resource’ applied by subject matter experts that use R&R information. Although there are a number of ways to do this (such as forming an expert working group to

assist), we think the Board should consider the resource commitment that would likely be required.

52. We think doing so would require an ongoing resource commitment. In particular:
- (a) referring to existing definitions (or incorporating classification systems) in IFRS Standards will require ongoing resources to ensure that any changes made to those classification systems are assessed in the context of IFRS Standards (that is, to research the effect of those changes and consider whether to make corresponding amendments to IFRS Standards, which would then need to follow the Board's due process if amendments to IFRS Standards were needed).
 - (b) using a static reference in IFRS Standards to an existing definition or developing a definition based on an existing definition (that is, if the Board were to require entities to apply a specific version of, or definition in, the relevant R&R classification systems) could remove the need for ongoing monitoring, however the reference or definition could soon become out of date and there would still be a need to regularly ensure that the reference or definition continues to remain relevant.
53. Furthermore, because this is a very specialised area, the Board may need to use subject matter experts, such as geologists and engineers, when developing any requirements or guidance. Also, as indicated by feedback to the Discussion Paper, resources would be required to develop any application guidance needed to supplement the definitions developed.

Staff recommendation

54. The analysis in paragraphs 20–53 considered two specific matters being:
- (a) the availability of R&R information prepared applying classification systems and disclosed outside financial statements; and
 - (b) R&R information that is used as inputs for financial statement items.
55. These matters are relevant only to entities with extractive activities and are most relevant to extractive activities outside the scope of IFRS 6. Outreach and research indicated that diversity is present in:
- (a) the R&R classification systems required by jurisdictional regulatory requirements; and
 - (b) the reporting of R&R information (that is, what, and whether, R&R information must be disclosed) required by jurisdictional regulatory requirements.
56. Outreach also indicated that diversity may be present in R&R information used as inputs for financial statement items (such as for impairment testing and the determination of depreciation and provisions).
57. We are unable to comment on whether differences in the R&R classification systems applied leads to diversity in the measurement of R&R. However, our research indicated that jurisdictional R&R classification systems are moving towards alignment with the widely accepted R&R classification systems of CRIRSCO and PRMS.
58. We think any potential improvements the Board could make regarding the use and disclosure of R&R information in financial statements would be limited for the reasons discussed in paragraphs 40–53. We acknowledge many stakeholders support disclosure of R&R information in financial statements. However:
- (a) most jurisdictions with significant extractive industries have requirements governing the preparation and disclosure of R&R information.

- (b) although users said R&R information is important and enhances their understanding of financial statements and many stakeholders expressed concern about the diversity described in paragraphs 25–31, many stakeholders also said R&R information is non-financial and beyond the remit of the Board and the financial statements.
59. Research indicated that jurisdictions with significant extractive industries have already developed the requirements and regulatory structure necessary for the preparation and disclosure of R&R information outside financial statements. Most investors (Appendix C) said they get the R&R information they need for the majority of the entities they follow. We have therefore not identified sufficiently compelling evidence to explore requiring R&R information to be disclosed in financial statements.
60. Consequently, we recommend that the Board does not explore developing requirements or guidance for R&R information in financial statements.

Question for the Board

Question for the Board

Does the Board agree with the staff recommendation in paragraph 60?

Appendix A—2010 *Extractive Activities Discussion Paper*⁴

- A1. Reserves and resources were analysed, and proposals developed, as part of three broad topics in the Discussion Paper being:
- (a) definitions of reserves and resources (see paragraphs A2–A5);
 - (b) disclosure objectives (see paragraphs A6–A9); and
 - (c) disclosure of specific information (see paragraphs A10–A17).

Definitions of reserves and resources

Discussion Paper proposals

- A2. Chapter 2 of the Discussion Paper considered that consistent definitions of minerals and oil and gas reserves and resources are needed in order to develop accounting and disclosure requirements that are compatible with and across all extractive industries. This is because, in the project team’s view, assessing the financial position and performance of an entity engaged in extractive activities in order to make economic decisions requires an understanding of the entity’s minerals or oil and gas reserves and resources, which are the source of future cash flows.
- A3. Consequently, the Discussion Paper proposed that the definitions of ‘reserve’ and ‘resource’ that should be used to develop accounting and disclosure requirements are:
- (a) the mineral reserve and resource definitions established by the Committee for Minerals Reserves International Reporting Standards (the CRIRSCO Template). The Discussion Paper noted that the CRIRSCO Template forms the basis of market regulator disclosure requirements in most jurisdictions that have formalised mineral reserve and/or resource disclosure requirements (excluding the USA); and
 - (b) the oil and gas reserve and resource definitions in the Petroleum Resource Management System (PRMS), as established by the Society of Petroleum Engineers Oil and Gas Reserves Committee (SPE OGRC) in conjunction with other industry bodies. The Discussion Paper noted that PRMS is used by many oil and gas entities for internal resource management and corresponds closely with market regulator disclosure requirements in most jurisdictions that have formalised oil and gas reserve and/or resource disclosure requirements (including Canada and the USA).

⁴ See [October 2010 Agenda Paper 7A](#) and [Agenda Paper 7B](#).

Summary of feedback

- A4. Most respondents to the Discussion Paper supported the use of these definitions for the reasons mentioned in the Discussion Paper—that is, they have wide acceptance within the industries and they are broad and comprehensive classification systems. In addition, a joint CRIRSCO-SPE working group confirmed that broad equivalence exists between these two sets of industry definitions, and therefore it should provide a basis for building a single financial reporting model across the minerals and oil and gas industries (see paragraphs 2.24–2.45 of the Discussion Paper).
- A5. However, most respondents also expressed concerns about incorporating such definitions into IFRS Standards. The main concerns were:
- (a) how those definitions could be incorporated into a standard on extractive activities;
 - (b) whether application guidance would be needed to supplement CRIRSCO (for minerals) and PRMS (for oil and gas) and ensure the definitions are consistently applied; and
 - (c) the economic assumptions that should be used in preparing reserve estimates, because these assumptions can differ from other judgements and assumptions applied when preparing financial statements.

Disclosure objectives

Discussion Paper proposals

- A6. 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

- A7. Most respondents supported the proposed disclosure objectives.
- A8. Respondents also commented on whether disclosure of R&R information should be included in the notes to the financial statements or in management commentary. The Discussion Paper proposed that the disclosures could be presented elsewhere in information published with the financial statements rather than in the notes to the financial statements.
- A9. The issue is relevant because most jurisdictions require an audit opinion on the financial statements. Many minerals and oil and gas entities and industry consultants

advised that auditing R&R disclosures would impose significant costs, be time intensive and would divert geological and engineering expertise away from business functions and towards compliance functions. Most users consulted by the project team agreed that the cost of auditing such disclosure would outweigh the benefits they would obtain from that assurance process.

Disclosure of specific information

Discussion Paper proposals

- A10. The Discussion Paper proposed that the types of R&R information that should be disclosed include:
- (a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;
 - (b) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;
 - (c) a reconciliation of changes in the estimate of reserves quantities from year-to-year; and
 - (d) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year-to-year.
- A11. The Discussion Paper also proposed that entities should disclose proved reserves and, separately, the sum of proved and probable reserves so that users are provided with both a high confidence estimate and a best estimate of the quantity of minerals or oil and gas that the entity expects to be able to economically extract. The Discussion Paper suggested that entities might also wish to disclose information on their resource estimates.

Summary of feedback

- A12. Many respondents, including minerals entities and users, supported the disclosure of proved and probable reserve quantities. However, the views from the oil and gas entities varied—some supported the proposal while others did not support the disclosure of probable reserves.
- A13. Respondents also agreed with disclosing reserve quantities on a disaggregated basis although there were different views on the appropriate level of geographical disaggregation.
- A14. Almost all respondents agreed that information on the main assumptions used in estimated reserves and quantities should be disclosed. However, most respondents disagreed with the proposal to supplement the reserves quantity disclosure with a

sensitivity analysis. They considered that the sensitivity analysis would have limited practical benefit and would be excessively costly to prepare.

- A15. There was significant support for entities to disclose a reconciliation of the change in their reserve quantity estimates from year-to-year.
- A16. Almost all respondents disagreed with disclosing information about fair value or another type of current value measurement of an entity's minerals or oil and gas properties for the same reasons for not supporting using fair value as a measurement basis.
- A17. Despite most respondents supporting the disclosure proposals, many said:
- (a) the proposed disclosures were excessive and would be costly to prepare;
 - (b) some of the proposed disclosures appeared to respond to users' wants rather than needs; and
 - (c) some of the proposed disclosures either duplicated or were inconsistent with existing R&R disclosure requirements in some jurisdictions.

Appendix B—Summary of outreach and research activities

- B1. Appendix B summarises the following outreach and research activities relevant to R&R information:
- (a) developments regarding proposals in the Discussion Paper (paragraphs B2–B7);
 - (b) outreach with stakeholders (paragraphs B8–B16);
 - (c) research findings from an academic literature review (paragraphs B17–B18);
 - (d) research findings on the diversity in, and public availability of, R&R information (paragraphs B19–B23).

Developments regarding proposals in the Discussion Paper⁵

- B2. In 2018, the Extractive Activities research project was activated. As part of this activation, we requested feedback from the national standard-setters who helped develop the Discussion Paper (being Australia, Canada, Norway and South Africa) to inform the Board of any significant developments since the publication of the Discussion Paper (see *Agenda Paper 19* of this meeting).

Definitions of reserves and resources

- B3. Almost all respondents to that request for feedback said there have been minor amendments to the definitions of reserves and resources within each jurisdiction.

Disclosure

- B4. Our research indicated that, following the Board’s issuance of clarifications regarding the application of materiality to disclosures, it is clear that entities would not need to provide the disclosures proposed in the Discussion Paper (see paragraphs A10–A11 of Appendix A) to the extent the information resulting from those proposals was immaterial.
- B5. 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

⁵ See [March 2019 Agenda Paper 19](#), [September 2019 Agenda Paper 19B](#) and [Agenda Paper 19E](#).

proposals for 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 change again based on the outcome of the Targeted Standards-level Review of Disclosures project.

B6. We also observed that stakeholder needs may have changed since 2010.

Conclusion

B7. We concluded that the analysis and proposals in the Discussion Paper, including feedback to the Discussion Paper, remains relevant and should be considered by the Board when determining what the scope and objectives of any project on extractive activities should be.

Outreach⁶

Stakeholder observations

B8. Consistent with the analysis in, and feedback to, the Discussion Paper, more recent outreach indicated that users:

- (a) find R&R information useful;
- (b) use R&R information to enhance their understanding of the financial statements; and
- (c) find that publicly available R&R information often lacks comparability and consistency (both between entities in the same industry and between jurisdictions).

B9. Outreach also indicated that:

- (a) R&R information is generally disclosed outside financial statements; and
- (b) requirements about (i) what R&R classification system to apply; (ii) what R&R information to disclose; and (iii) when to disclose R&R information; differs between jurisdictions.

Stakeholder feedback on disclosing R&R information in financial statements

B10. In line with feedback to the Discussion Paper, there are mixed views about whether the Board should require disclosure of R&R information that has been prepared using a third-party set of standards.

⁶ See [October 2010 Agenda Paper 7A](#) and [Agenda Paper 7B](#); [March 2019 Agenda Paper 19](#); [September 2019 Agenda Paper 19B](#) and [Agenda Paper 19E](#); and [June 2020 Agenda Paper 19A](#).

- B11. Some preparers consulted did not support such an approach because, in their view:
- (a) R&R reports are prepared by experts that do not use IFRS Standards—for example, a few preparers noted that geologists and engineers are expected to exercise conservatism when preparing R&R reports. In their view, this conflicts with the objective of IFRS Standards to provide unbiased information.
 - (b) when R&R disclosures are considered important, disclosures are either:
 - (i) required by, and subject to, jurisdictional regulatory requirements;
 - (ii) subject to regulatory requirements in a jurisdiction when made voluntarily—for example, some jurisdictions do not mandate such disclosures, but include requirements that apply when those disclosures are voluntarily provided; or
 - (iii) voluntarily provided.
 - (c) the burden of reporting would be unreasonable if R&R information were to be disclosed in the financial statements—this is because:
 - (i) material information could be obscured by immaterial information—these respondents said R&R information is specialised and only some users would find it useful. Accordingly, it could obscure material information in the financial statements.
 - (ii) audit and compliance costs would increase significantly.
 - (iii) R&R information can be commercially sensitive, revealing, for example, an entity’s strategy.
- B12. However, some other stakeholders suggested requiring entities to disclose R&R information because, in their view, such information:
- (a) is critical for users to:
 - (i) assess an entity’s financial position and future potential cash flows;
 - (ii) understand how well an entity is replacing its reserves over time;
 - (iii) understand the different geological, political and other risks affecting an entity’s ability to extract minerals and oil and gas; and
 - (iv) compare the financial performance of entities within the industry;
 - (b) is relevant to recognition and measurement principles in financial statements because reserve quantities are often used as inputs in impairment assessments, depreciation calculations and decommissioning provisions; and

- (c) would support consistency and transparency of reported R&R quantities.
- B13. A few of these stakeholders also had some concerns about providing R&R information in financial statements. In particular, these respondents said the Board should consider:
- (a) the disclosure burden, especially for smaller entities (such as junior exploration entities); and
 - (b) the sensitivity of R&R quantities—for example, for state-owned entities there could be issues of national security.
- B14. Consequently, we investigated further (paragraphs B19–B23):
- (a) what R&R classification systems are and who uses them;
 - (b) the extent of R&R information that is publicly available;
 - (c) the differences in R&R classification systems used—that is whether the R&R classification systems mandated by individual jurisdictions align with the widely accepted CRIRSCO and PRMS classification systems; and
 - (d) the differences in the disclosure of R&R information—that is the differences between jurisdictional regulatory requirements for the disclosure of R&R information.

Stakeholder observations on the interaction between IAS 16 Property, Plant and Equipment and R&R information

- B15. Some preparers consulted said, 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 a mine has been in operation, it could extend the life of mine for several years (depending on the size of the replacement reserve); and
 - (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).
- B16. A few preparers also said there is diversity across the extractive industries when applying the units-of-production method for depreciating assets. They said that there can be significant diversity between entities applying the units-of-production method because depreciation may be calculated using:
- (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.

Research findings from an academic literature review⁷

- B17. We analysed the academic evidence on extractive activities. Our analysis focused on academic papers published around or after the Discussion Paper was issued. The analysis was based mainly on evidence from IFRS jurisdictions but included US-based evidence when such evidence was considered useful and when comparative IFRS-based evidence was unavailable.
- B18. The disclosure of R&R information varied among entities. Many entities disclosed information required by their local jurisdiction or stock exchange and a few entities voluntarily disclosed additional information. Technical information about mineral exploration, development and production activities of mining entities was considered useful by analysts and investors. Improving disclosure requirements was associated with a stronger market reaction to exploration, reserve and resource announcements but also with increased information asymmetry between entities and investors, which in the authors' view was due to delays in disclosure as a result of the increased disclosure requirements.

Research findings on the diversity and public availability of R&R information⁸

- B19. Similar to IFRS Standards, R&R classification systems provide a comprehensive framework for the preparation and disclosure of R&R information to the public.
- B20. R&R information in accordance with a R&R classification system is prepared by geologists (and other relevant experts, such as metallurgists, engineers and others) for use by other geologists, mine engineers, scientists and specialist investors. R&R reports are scientific and technical reports prepared for subject matter experts.
- B21. In line with feedback on R&R information (paragraphs B8–B14), research findings indicated that most jurisdictions with significant extractive industries have regulatory requirements that specify the use of a particular R&R classification system. However, research also indicated that these classifications systems predominantly align with the widely accepted R&R classification systems of CRIRSCO and PRMS.

⁷ See [July 2020 Agenda Paper 19B](#).

⁸ See [September 2020 Agenda Paper 19A](#).

- B22. We sampled nine jurisdictions to investigate further the diversity of jurisdictional regulatory requirements for R&R reporting. The nine jurisdictions were selected because they include:
- (a) the three jurisdictions (Canada, the United Kingdom and the United States of America) on whose stock exchanges the majority (by market capitalisation) of entities with extractive activities are listed;
 - (b) the other jurisdictions that helped develop the 2010 Discussion Paper and have important extractive industries (Australia, Norway and South Africa); and
 - (c) other jurisdictions in which extractive activities contribute significantly to that jurisdiction's economy (Brazil, China and Russia).
- B23. Jurisdictional regulatory requirements for the disclosure of R&R information outside financial statements can differ significantly between extractive industries and between jurisdictions. In particular regulatory requirements for the disclosure of R&R information for oil and gas entities appear to be more common than for minerals entities. In addition, jurisdictions generally require more regular disclosure for oil and gas entities than for minerals entities. Specifically, we observed that oil and gas entities are generally required to publicly report specific R&R information on an annual basis outside financial statements whereas this is not always the case for minerals entities. Minerals entities are instead generally subject to continuous disclosure requirements which require the disclosure of R&R information when that information is deemed to be material (that is both material to the market and when then there is a material change to any previously disclosed R&R information). In addition:
- (a) more generally, regulatory requirements appear to focus on the reporting of reserve information whereas the reporting of resource information is more discretionary.
 - (b) the classification of the reserves (for example, proved or proved and probable) and resources that are required to be disclosed can vary between jurisdictions.
 - (c) the extent of regulatory requirements for the disclosure of R&R information outside the financial statements differs depending on the predominance of the minerals or oil and gas industries in the jurisdictions (for example, where a jurisdiction has a significant minerals industry there tends to be more detailed regulatory requirements for disclosures of minerals R&R information than for oil and gas R&R information).
 - (d) a few jurisdictions do not mandate the disclosure of R&R information outside the financial statements, or have very limited regulatory requirements.

- (e) none of the jurisdictions researched required disclosure of R&R information in the financial statements. Some of the R&R information required in the United States of America is supplementary information to the financial statements.

Appendix C—Summary of targeted investor outreach

- C1. More recently, we conducted a survey and held several one-to-one meetings with a range of investors to gain a better understanding of their views on R&R information and the diversity of accounting policies developed applying IFRS 6 (see also Appendix D of *Agenda Paper 19C* of this meeting).
- C2. As part of that survey we asked investors:
- (a) how important R&R information is;
 - (b) how they use such information;
 - (c) whether they are concerned with the comparability of R&R information (that is, if they were concerned about different jurisdictions requiring entities to apply different R&R classification systems); and
 - (d) whether R&R information was publicly available for all extractive entities they followed.
- C3. All respondents to the survey said R&R information is important, with most saying it is critical for their analyses:
- (a) many said that they need R&R information for forecasting and valuation modelling and analyses. These respondents also said R&R information is a useful supplement to financial statements. One-to-one meetings with a few respondents highlighted that information on the estimated life of reserves allowed them to determine how long cash flows would be sustained for.
 - (b) some said that they need R&R information to help them understand specific items in the financial statements—for example, it helps to explain the assets and liabilities, and the income and expenditure that are recognised.
- C4. All respondents expressed at least some concern that the comparability of R&R information could be affected by potential differences in R&R classification systems specified for use by different jurisdictions. However, one respondent said comparability would likely be an issue only if an investor were applying a “blanket” multiple across all entities in an industry which, in their view, would be unusual. The same respondent said it would be unlikely investors would be able to identify differences between entities using different classification systems if there were any.
- C5. Most respondents to the survey indicated that they were able to access sufficient and relevant R&R information for the majority of the entities that they follow (that is, that the R&R information they need is available publicly). However, a few respondents also said that despite this, the quantity and quality of information disclosed differed between entities in the same industry and between jurisdictions.
- C6. One-to-one meetings with a few respondents suggested the quality of R&R information differed depending on the size of the entity. For example, smaller entities

(such as those engaged only in exploration and evaluation or only in development activities) generally meet only the minimum disclosure requirements whereas larger entities more regularly provide additional voluntary disclosures.

Appendix D—Extracts from the Discussion Paper

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Alternatives for defining reserves and resources

Developing new definitions

- 2.9 One alternative that would enable the use of consistent definitions of minerals and oil and gas reserves and resources in IFRS Standards is to develop a new set of reserves and resources definitions that could apply equally to minerals and to oil and gas. Developing new definitions poses several challenges. First, the IASB does not have the requisite technical expertise in geology and engineering disciplines to be able to develop a comprehensive set of reserve and resource definitions (and accompanying guidance). It would therefore need either to seek to have another entity develop the definitions or to acquire the necessary expertise. If the IASB itself were to develop new definitions, it would be custodian of the definitions. The IASB would be responsible for their continuing maintenance to ensure the definitions kept pace with changes in knowledge, technology and best practices. Having definitions for financial reporting purposes that are different from those used by geologists and an entity's management also has obvious disadvantages in that it would be likely to result in confusion and a lack of understanding of the definitions. For these reasons the project team decided that other options should be considered.

Consistent definitions

- 2.10 The alternative to developing a new set of definitions of minerals and oil and gas reserves and resources is to identify whether there are suitable existing reserve and resource definitions in each industry. These definitions would need to be sufficiently consistent (but not necessarily identical) definitions that would be suitable for developing common accounting and disclosure requirements across the minerals and oil and gas industries. The definitions are considered to be consistent if:
- (a) the terminology is generally consistent;
 - (b) where consistent terminology cannot be used, there is a one-to-one relationship between terms used in minerals and in oil and gas; and
 - (c) the terminology has essentially the same meaning, even if different words are used.

This approach is pragmatic. It avoids the difficulties of the IASB developing its own definitions for accounting purposes—but it requires some deviation from a single set of definitions. The approach also depends on the co-operation of the sponsors of the definitions. The research project has focused on this alternative.

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