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## IASB® meeting

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| Date     | <b>July 2023</b>  |
| Project  | <b>Extractive Activities</b>  |
| Topic    | <b>Summary of feedback—Information to help understand the risks and uncertainties of entities' E&amp;E activities</b>                             |
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## Purpose and structure

1. As explained in Agenda Paper 19, this paper summarises feedback from our research on suggestions to improve information about the risks and uncertainties of exploration and evaluation (E&E) expenditure and activities (risk and uncertainty information).
2. This paper is structured as follows:
  - (a) Background (paragraphs 3–8); and
  - (b) Summary of feedback (paragraphs 9–56).

## Background

3. In its September 2022 meeting, the International Accounting Standards Board (IASB) discussed a suggestion to provide risk and uncertainty information (see paragraphs 46–61 of [Agenda Paper 19C](#) to the IASB's September 2022 meeting). Such information could help users of financial statements (users) assess an entity's prospects for future cash flows, helping them to assess the magnitude of those cash flows, the timing and the factors affecting the probability of their occurrence.

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4. In the initial feedback one national standard-setter said IFRS 6 *Exploration for and Evaluation of Mineral Resources* was issued as an interim standard and does not require disclosures to enable users to understand the risks and uncertainties of extractive activities. In their view, further work is needed to assess whether entities should be required to disclose better information about E&E activities. The initial feedback suggested users find information about E&E activities more important than the accounting for E&E activities.
  5. As we explained in Agenda Paper 19, we performed further outreach with various stakeholders to understand whether risk and uncertainty information could be disclosed.
  6. In our meetings we explained why risk and uncertainty information might be helpful, and provided examples of the type of information an entity might disclose. For example, risk and uncertainty information could help users understand:
    - (a) level of uncertainty—stage of activities, whether the activities are on a brownfield site or a greenfield site;
    - (b) operational risks—challenges due to the nature of the activities, type of geology, remoteness of area; and
    - (c) political and regulatory risks—operating in a particular geography, legislative uncertainties, title risk.
  7. We also explored whether entities should be required to disclose a breakdown of annual E&E expenditure (if expensed) or E&E assets (if capitalised) by major project with some narrative information about each project's risks and uncertainties.
  8. We asked stakeholders for feedback about:
    - (a) whether users would find this information useful and what they would use the information for;
    - (b) what concerns preparers would have in disclosing this information;
    - (c) whether this information should be disclosed within financial statements;

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- (d) whether this information is important regardless of how an entity accounts for E&E expenditure;
  - (e) what risks and uncertainties should be disclosed;
  - (f) whether this information is already being disclosed and if so where;
  - (g) how this information should be aggregated or disaggregated; and
  - (h) would it also be useful, and feasible, to disaggregate E&E expenditure or E&E assets.

## Summary of feedback

9. Because of the interrelationships between the questions in paragraphs 8(a)–(h) we have not separated out feedback on each of these questions. Instead, we have grouped feedback by stakeholder type.

### *Users*

10. Feedback from users on the usefulness of risk and uncertainty information was mixed.
11. Many users we spoke to said the information would be useful and one said they preferred this information to be disclosed in the financial statements to ensure consistency of the information.
12. However, many others were sceptical, and said for example:
- (a) they get this information outside financial statements;
  - (b) it would be difficult to require this information in financial statements because risks are subjective;
  - (c) the information disclosed would likely be unreliable or ‘boilerplate’; and
  - (d) providing information to help investors understand risks is an analyst’s role.

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13. Many users said risk and uncertainty information must be disaggregated. One said they understand general exploration risk, but linking risks to specific projects would be useful. One said this information would be more material for smaller entities than for more mature entities.
  14. Risks identified as being of particular interest included:
    - (a) geopolitical;
    - (b) access to infrastructure;
    - (c) geological; and
    - (d) community relations.
  15. Two users said risk and uncertainty information should be disclosed regardless of what accounting policy for E&E expenditure an entity applies.
  16. Many users we spoke to said a breakdown of annual E&E expenditure (if expensed) or E&E assets (if capitalised) by major project would be useful. One user said that even if information about risks and uncertainties are disclosed outside financial statements, the information is generally not linked to specific assets in financial statements. Another said the information would help users understand how well an entity is deploying capital.
  17. However, one user said such a breakdown would only provide marginal benefit and the information is unlikely to affect their investment decisions. They said the information might be of more interest to those users that are geologists and are specialist investors in resources.
  18. Feedback from users that the national standard-setters (NSS) spoke to was generally consistent with feedback we received, although users in one NSS's jurisdiction were more supportive of the suggestion to improve risk and uncertainty information.

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19. Users one NSS spoke to said:
- (a) this information is crucial and they use information disclosed outside financial statements under jurisdictional reporting requirements. They said that disclosures about risks and uncertainties in financial statements applying IAS 1 *Presentation of Financial Statements* are reasonable, although this is likely to be because of additional information disclosed outside the financial statements in that jurisdiction. These users said more specific information might not be able to be disclosed in financial statements because this information relates to geological, strategic or political issues.
  - (b) disclosing risk and uncertainty information disaggregated by project would be useful, but were unsure as to whether entities would disclose this level of detail. Comparability may also not be achieved because each entity and area of interest is different.
  - (c) information about risks and uncertainties would be useful regardless of whether an entity capitalises E&E expenditure or not.
20. However, users the other NSS spoke to were mostly supportive of the suggestion. They said disclosing risk and uncertainty information at a project level would be useful because that information would generally be consistent with how management makes decisions. However, these users were indifferent to whether the information was disclosed outside or in financial statements.
21. Risk and uncertainty information that users the two NSS spoke to identified as being of particular interest included:
- (a) location information—because it would help identify obvious risks;
  - (b) tenure and legal claims; and
  - (c) political.

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**Preparers**

22. Feedback from preparers was mixed. Although there was recognition that some risk and uncertainty information might be useful, there were many concerns with disclosing the information, especially on a disaggregated basis.
23. Many preparers we spoke to said risk and uncertainty information (or some of the additional information suggested) would be useful. For example:
- (a) one said entities in the extractive industry disclose information in annual reports, but observed the information was general, difficult to compare to information in financial statements and often very positive. Disclosing additional risk and uncertainty information could reduce information asymmetry.
  - (b) some said some narrative information on the exploration portfolio, exploration areas and the type of exploration could be useful and another said this information is more important for E&E activities due to their riskiness.
24. However, many other preparers we spoke to questioned the usefulness, and said, for example:
- (a) the information is already disclosed outside financial statements;
  - (b) if there is a material risk this would already be disclosed in the financial statements as a significant judgement applying IAS 1;
  - (c) users understand E&E activities are risky; and
  - (d) users are more interested in information about the development phase, reserves or production activities and entities do not get many questions from users about E&E activities.
25. These preparers also had concerns about disclosing this information, for example:
- (a) its auditability;
  - (b) information about drilling results does not belong in financial statements; and

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- (c) why is more detailed information required for E&E activities than about other activities.
26. One preparer said an entity's risk profile is affected by its size. For smaller entities, users want to know about liquidity and going concern risk. If drilling results shouldn't be included in financial statements, they questioned what additional information about risks and uncertainties should be provided for these entities.
27. Many preparers provided various comments about disclosing information about risks and uncertainties on a disaggregated basis, for example:
- (a) 'major project' would need to be defined;
  - (b) an entity should be allowed to decide the level of disaggregation—however, one preparer said allowing this flexibility would mean the information disclosed would not be comparable;
  - (c) entities often have many projects and it is likely these entities would conclude they have no single major project—these preparers said they would instead disclose information on a regional or geographical basis;
  - (d) some of the information could be difficult to disclose if disaggregated by region for example, the stage of the E&E activity; and
  - (e) disclosing information on a disaggregated basis could mean the information could be commercially sensitive—providing information about an entity's strategy, potentially affecting negotiations with governments—and the resulting information would likely be 'boilerplate' to avoid disclosing commercially sensitive information.
28. One preparer said further guidance should be provided on what to disclose under this suggestion and a minimum level of information should also be required.
29. On the topic of whether to disclose a breakdown of an entity's annual E&E expenditure (if expensed) or E&E assets (if capitalised) by major project, some similar comments were received. Although some preparers said this could be useful,

preparers also said there is a need to define ‘major project’ and using major project could result in a long list of small amounts. Some preparers challenged the usefulness of linking risk and uncertainty information to disaggregated amounts in financial statements because exploration is a mixture of luck and competence, and the cost of exploration is not directly linked to the returns that could be generated from those costs.

30. There were mixed views on whether risk and uncertainty information should be disclosed regardless of the accounting policy an entity applies to its E&E expenditure. Some preparers said information about the activity is more important than how entities account for E&E expenditure because it would be more comparable and it provides users with insight of how the entity is managed. On the other hand, some preparers said the information should be required only for capitalised E&E expenditure. These preparers said risks are difficult to identify if there is no asset to link the activities to and if E&E expenditure is expensed there is less reason to include the information in financial statements.
31. Risks that preparers we spoke to identified as being of particular interest included:
- (a) geopolitical;
  - (b) funding;
  - (c) social—community relations;
  - (d) water management;
  - (e) engineering;
  - (f) geological; and
  - (g) health and safety.
32. Feedback from preparers the NSS spoke to was also mixed, although one NSS said preparers in their jurisdiction were generally not supportive of this suggestion. This NSS reported preparers in their jurisdiction said information about the location, type and stage of E&E activities would be useful if material and applied to major projects



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but they had concerns with providing risk and uncertainty information in financial statements. For example, they said:

- (a) users, especially sophisticated users, know these activities are risky;
  - (b) disclosing this information would duplicate information provided outside financial statements, and the information is better located outside financial statements together with other information that can provide context to the information about risks and uncertainties;
  - (c) if there was a significant judgement or source of estimation uncertainty, this would be disclosed in financial statements, but one said it is jurisdictional regulatory requirements that are driving this disclosure;
  - (d) information should be disaggregated depending on the circumstances of the entity—disaggregating by region or project might suit different entities—one preparer was not sure that comparability could therefore be achieved and questioned whether greater levels of granularity would be useful;
  - (e) for some entities this information is not material enough to disaggregate; and
  - (f) information could be commercially sensitive—for example, information about contractual arrangements and when negotiations are taking place.
33. Preparers said information about risks and uncertainties should be disclosed regardless of the accounting policy an entity applies to its E&E expenditure. They also suggested that the split of E&E assets or E&E expenditure should be disclosed as part of an entity's operating segment disclosures, and hence disaggregated by reportable segments.
34. The other NSS reported stakeholders<sup>1</sup> in their jurisdiction had mixed views. Those that supported the suggestion said disclosure of risk and uncertainty information might not be too costly because entities should already be tracking information on, for

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<sup>1</sup> One NSS reported feedback from preparers and auditors together and it was not possible to attribute the feedback to specific stakeholder groups. We have included the feedback in the stakeholder group that we think it is most relevant to, but the comments might also be attributable to other stakeholder groups.

example, the risks of material mining properties. However, the disclosure could be more challenging for junior entities. These stakeholders suggested developing clear disclosure objectives to ensure information is disclosed at the appropriate level of detail and considering whether the information be required only for those entities that capitalise E&E expenditure.

35. Stakeholders from this jurisdiction that disagreed with the suggestion said the information could be commercially sensitive and only ‘boilerplate’ information might be disclosed as a consequence. They also said disclosing this information would be burdensome for entities that expense E&E expenditure compared to entities in other industries with similar expenditure that is expensed—for example, pharmaceutical entities.

### **Auditors**

36. Auditors, although acknowledging the information could be useful, were generally not supportive of the suggestion to require entities to disclose risk and uncertainty information.
37. Auditors we spoke to said this information is disclosed outside financial statements. Although auditors said this information could be useful, there were several concerns with requiring the information to be disclosed in financial statements:
- (a) these are business risks and belong outside financial statements;
  - (b) in order to limit exposure, the information disclosed could be ‘boilerplate’; and
  - (c) the information would be difficult and costly to audit, needing specialists and it would be difficult to audit the completeness of risks.
38. One auditor said some of the information relates to the technical feasibility of reserves and resources and the same reasons the IASB decided not to include reserve and resource information in the scope of this research project would apply to this information.

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39. More generally, auditors said users know E&E activities are risky and questioned why more information should be required for these activities as opposed to an entity's producing activities or other industries and transactions (for example, cryptocurrency assets). One auditor said because E&E expenditure is measured at historic cost, which is unrelated to the value of the (potential) deposit, they were unsure whether additional information about risks and uncertainties would add to the understanding of the E&E asset.
40. One auditor we spoke to said requiring information to be disaggregated could obscure material information. When asked, this auditor also said disaggregated information about risks and uncertainties shouldn't be commercially sensitive because it is already disclosed outside financial statements. However, they said detailed information about technology used to perform E&E activities could be commercially sensitive.
41. Commenting on how the information should be disaggregated, one auditor suggested this should be consistent with other IFRS Accounting Standards for example, disaggregated by reportable segment or cash-generating unit.
42. One auditor we spoke to said information about the type of E&E activity could be of particular interest for example, whether the mine is open pit or underground, whether exploration is conventional, unconventional or offshore.
43. Auditors the NSS spoke to were also sceptical of this suggestion. These auditors said, for example:
- (a) users know E&E activities are risky and if there is a significant uncertainty this should already be disclosed;
  - (b) why should additional information be required for E&E activities and not for activities of, for example, pharmaceutical entities;
  - (c) information is available outside financial statements and it is better to co-locate this information with management commentary;

- (d) if required in financial statements the information disclosed could be ‘boilerplate’—in their view more useful information would be disclosed outside financial statements;
  - (e) specialists would be needed to audit the information, and it is not clear what the value of auditing this type of information would be; and
  - (f) auditing completeness of risks and uncertainties would be challenging.
44. However, one auditor one NSS spoke to said IAS 1 is insufficient to capture risk and uncertainty information because E&E expenditure does not meet the definition of an asset under the Conceptual Framework for Financial Reporting and therefore IAS 1 does not prompt disclosure of this information.
45. Auditors one NSS spoke to said they were concerned about requiring disclosure of disaggregated information about risks and uncertainties and the volume of information that might be required, and consequently an entity perspective might be better for financial statements. On how the information should be disaggregated one auditor said some of the information is better disclosed by project (for example, engineering risks) and some is better disclosed by region (for example, political risks).
46. One auditor also said they would prefer if the split of E&E expenditure or asset by major project is disclosed outside financial statements—this information could then be cross-referenced to information in financial statements. Another said linking risk and uncertainty information to areas of interest (unit of account) could be useful but for many junior entities this link is probably already clear.

### ***Regulators***

47. Regulators were generally supportive of the suggestion to disclose risk and uncertainty information.
48. Regulators we spoke to said users want more specific information about risks and uncertainties rather than general information, this is important information and

requiring this information in financial statements would help ensure consistency across jurisdictions. Disclosing risk and uncertainty information and disaggregating E&E expenditure (if expensed) or E&E assets (if capitalised) by major project would be useful, allowing users to understand how much E&E expenditure has been spent in risky areas.

49. Regulators we spoke to said this information should be required regardless of the accounting policy an entity applies to E&E expenditure.
50. These regulators did however have some concerns, for example:
  - (a) information about risks is subjective (which is why it is disclosed outside financial statements) and it could be difficult to enforce;
  - (b) it could be unclear what a material risk is and it is likely this will be a point of debate;
  - (c) conceptually this information should be in management commentary because it is about future prospects;
  - (d) it is not clear where the IASB should draw the line—for example, geographical risks are relevant for all entities; and
  - (e) requiring this information in financial statements could overload financial statements.
51. One regulator said, although entities should have flexibility on how they disaggregate this information, there should be some restriction on the level of aggregation because the more aggregated the information is, the less useful it becomes.
52. Risks that regulators we spoke to also identified as being of particular interest included:
  - (a) environmental; and
  - (b) funding.

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53. In contrast, regulators the NSS spoke to had mixed views—one reported regulators in their jurisdiction were generally supportive, whereas the other NSS reported regulators in their jurisdiction disagreed with the suggestion.
54. Regulators that disagreed said the suggestion would conflict with existing regulatory requirements and they were concerned that duplication could increase the burden for preparers and could also create confusion and complexity.
55. Regulators the other NSS spoke to said this information would be useful and, although the information is already disclosed outside financial statements, requiring it in financial statements would be better because it would be subject to audit.
56. However, the regulators this NSS spoke to also raised some concerns, for example:
- (a) users already know these activities are risky and already have this information; and
  - (b) requiring the information in financial statements could result in ‘boilerplate’ information being disclosed.

#### Question for the IASB

1. Do IASB members have any comments on the feedback summarised in this paper?