NOVEMBER 2000

SUMMARY OF ISSUES: EXTRACTIVE INDUSTRIES

Issued for comment by the
IASC Steering Committee on Extractive Industries

Comments due by 30 June 2001

International
Accounting Standards
Committee®

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This Summary of Issues: Extractive Industries, is issued by the IASC Steering Committee on Extractive Industries for comment only. The Summary of Issues has not been considered by the Board of the International Accounting Standards Committee and does not necessarily represent the views of the Board.

Comments should be submitted in writing so as to be received by **30 June 2001**. All replies will be placed on the public record unless confidentiality is requested by the commentator. If commentators respond by fax or E-mail, it would be helpful if they could also send a hard copy of their response by post. Comments should be addressed to:

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ISBN 0 905625 93 5

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Summary of Issues in the IASC Issues Paper: Extractive Industries

The International Accounting Standards Committee has published an Issues Paper, Extractive Industries, as the first stage in IASC's project on financial reporting by mining and petroleum enterprises. This booklet contains a summary of the issues set out in the Issues Paper and a summary of the tentative views of the Steering Committee. This booklet is intended to assist those wishing to respond to the Issues Paper in developing their responses. The Issues Paper addresses each of the issues and sub-issues in depth and discusses the arguments for and against each of the alternative solutions. **Respondents are urged to read the entire Issues Paper before replying.** If you have a copy of this booklet but not the Issues Paper, you should obtain the Issues Paper from the IASC Publications Department. For information:

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Contents of the Issues Paper

The Issues Paper contains 16 chapters and other sections as follows:

Purpose of the Issues Paper

The extractive industries comprise enterprises that operate on an international basis and exert great economic influence worldwide. There is currently great diversity in accounting and disclosure practices by extractive industries enterprises. Also, in many countries, extractive industry accounting practices differ significantly from accounting practices used by enterprises in other industries. These factors make it difficult for users to compare financial statements issued by mining and petroleum enterprises in different countries, or by such enterprises and other enterprises in the same country.

The aim of the Issues Paper is to identify the important financial reporting issues in the extractive industries and to evaluate the merits of alternative ways of resolving those issues. To provide a focus for commentators, the Issues Paper sets out the tentative views that IASC's Extractive Industries Steering Committee has developed on some of the most significant issues at this early stage of the project. It should be noted that the expression of Steering Committee tentative views on issues identified in the Issues Paper does not imply unanimous agreement amongst members of the Steering Committee.

In developing a Standard on the extractive industries, IASC will pay particular attention to the need for extractive industries enterprises to provide relevant and reliable information that users of their financial statements can use as a basis for economic decisions. The information disclosed should enable users to compare the financial position and financial performance of extractive industries enterprises in different countries; that information should also be comparable with information disclosed about similar transactions by enterprises that are not in the extractive industries. Furthermore, IASC will continue to make use of IASC's Framework for the Preparation and Presentation of Financial Statements in developing the principles to be set out in a final Standard on the extractive industries. As is discussed more fully in the Issues Paper, some current accounting practices by extractive industries enterprises seem to be inconsistent with the definitions and criteria for recognising assets, liabilities, income, and expenses under the Framework.

Steering Committee Tentative Views

The Steering Committee has developed tentative views on some of the major issues set out in the Issues Paper. In many cases, the Steering Committee has developed an overall response to a Basic Issue, but has not extended this tentative view to the Sub-issues following that Basic Issue. The Steering Committee emphasises that its views are, inevitably, tentative at this early stage of the project. Before proceeding to the next stage of the project, the Steering Committee will review those tentative views carefully in the light of comment letters received and will assess whether those views are appropriate. The Steering Committee has not yet discussed its tentative views with the Board of IASC.

The Steering Committee's tentative views may be summarised briefly as follows:

1. An International Accounting Standard on financial reporting in the extractive industries is needed.
2. IASC should develop a single International Accounting Standard with common standards for both the mining and petroleum industries but with separate requirements or guidance for mining or petroleum as necessary to address industry-specific issues.
3. The Standard should be restricted to upstream activities (exploration for, and development and production of, minerals).
4. Information about reserve quantities and values, and changes in them, is a key indicator of the performance of an extractive industries enterprise.
5. The primary financial statements of an extractive industries enterprise should be based on historical costs, not on estimated reserve values.
6. Information about reserve quantities and values, and changes in them, should be disclosed as supplemental information.
7. The Steering Committee favours adoption of a method of accounting more consistent with the successful efforts concept than with other concepts.
8. All preacquisition prospecting and exploration costs should be charged to expense when incurred.
9. All direct and incidental property acquisition costs should be initially recognised as an asset.
10. All post-acquisition exploration and appraisal costs should be initially recognised as an asset pending the determination of whether commercially recoverable reserves have been found.
11. Some limit should be imposed if post-acquisition exploration and appraisal costs are deferred pending determination of whether commercially recoverable reserves have been found.
12. All development costs should be recognised as an asset.
13. Construction costs that relate to a single mineral cost centre should be capitalised as part of the capitalised costs of that cost centre (normally depreciated on a unit-of-production basis if the life of the assets is coincident with the life of the mineral reserves, or on a straight-line basis if the economic life is less than the life of the reserves). Construction costs that relate to more than one mineral cost centre should be accounted for in the same way as other property, plant, and equipment under IAS 16, Property, Plant and Equipment (normally depreciated on a time basis).
14. Post-production exploration and development costs should be treated in the same way as any other exploration or development costs.
15. Both the benchmark and allowed alternative treatments of borrowing costs contained in IAS 23, Borrowing Costs, should be permitted.
16. Overhead cost should be attributed to the relevant phase of operations (prospecting, acquisition, exploration, evaluation, development, and construction) and further

identified with a specific prospect, property, or area of interest. The overhead cost should be capitalised if, and only if, the direct costs of that phase of operations are capitalised for that specific prospect, property, or area of interest.

17. The Steering Committee does not favour cost reinstatement (reversing a prior period expense recognition in a subsequent period in which information becomes available that commercially recoverable reserves have been discovered).

18. Costs should be accumulated by area of interest or geological units smaller than an area of interest (for example, the field or the mine).

19. Use unit-of-production depreciation for all capitalised preproduction costs with two exceptions: (a) use straight-line depreciation for capitalised construction costs that serve a single mineral cost centre if the economic life of the asset is less than the life of the reserves and (b) follow IAS 16 for capitalised construction costs that serve two or more cost centres (sometimes called service assets).

20. Changes in reserve estimates should be reflected prospectively, that is, included in the determination of net profit or loss in the period of the change and future periods, consistent with the requirements of IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

21. IAS 37, Provisions, Contingent Liabilities and Contingent Assets, should be applied without modification to the recognition of removal and restoration costs and obligations in the extractive industries.

22. If the amount of a provision is part of the cost of acquiring the asset, it is recognised as such and is included in the depreciable amount of the asset.

23. The cost relating to a provision necessitated by production activities after an asset is installed should be capitalised as an additional cost of acquiring the asset, if the cost provides incremental future economic benefits.

24. If the cost associated with a provision was initially capitalised, changes in the estimated amount of the provision should be recognised in subsequent periods as an adjustment to the carrying amount of the asset.

25. IAS 36, Impairment of Assets, should be applied without modification to account for impairments of assets in the extractive industries.

26. Impairment of capitalised preproduction costs should be assessed based on proved and probable reserves.

27. An impairment test cannot be applied to deferred preproduction costs whose outcome is unknown. The Steering Committee favours some type of limit if preproduction costs are deferred pending determination of whether commercially recoverable reserves are found.

28. The general provisions of IAS 18, Revenue, should apply to enterprises in the extractive industries, and IAS 18 should be amended to eliminate the scope exclusion.

29. Revenue received prior to the production phase should be recognised as revenue or other income, not as a reduction of capitalisable costs.

30. Royalties paid in cash, royalties paid in kind, and severance taxes should all be included in the producer’s gross revenue and deducted as an expense.

31. Inventories of minerals should be measured at historical cost, even if those minerals have quoted market prices in active markets with a short time between production and sale and insignificant costs to be incurred beyond the point of production, and the enterprise intends to sell those minerals in that market.
32. All members of the Steering Committee favour disclosure of reserve quantities. The Steering Committee is divided regarding disclosure of reserve values.
33. Disclose proved and probable reserves separately, and within proved disclose proved developed and proved undeveloped reserves separately.

Summary of the Issues

The Basic Issues and Sub-issues are set out in each chapter of the Issues Paper within a framed border. For many issues, after the issue is stated and the likely alternative responses are set out, the tentative views of the Steering Committee are noted in italic type. The Steering Committee has not developed a tentative view on many of the more detailed issues.

The identification of possible responses to each issue and sub-issue generally helps to clarify a respondent's view. However, if you feel that none of the suggested responses represents your position, please explain your point of view in a narrative response. Furthermore, we encourage you not just to say that you support or oppose choice "a" or "b" but also to explain your reasoning. In analysing the responses, your reasoning is very important to us.

A number of the issues build on earlier issues or are intended to elicit more detailed views on a particular issue. In some cases, you may feel that if you answered "no" to an earlier issue then you should not respond at all to the more detailed issue. We would encourage you to respond to the detailed issues in any case. For example, even if you favour recognition of reserve values in the primary financial statements (Chapter 5), we would encourage you to respond to the issues relating to cost-based financial statements as set out in Chapter 6. Similarly, even if you do not support disclosure of reserve quantities or reserve values (Chapter 14) we would encourage you to respond to the issues that ask how such disclosures should be calculated and presented.

Basic Issue 1.1 – Possible additional industries besides mining and petroleum
Are there any industries besides mining and petroleum that should be included in the scope of this project?

a. No.
b. Yes (please describe).

Basic Issue 1.2 – Definition of upstream activities
The IASC Board has defined the scope of this project to include the upstream activities of enterprises in the extractive industries, but not the downstream activities. Other International Accounting Standards would apply to downstream activities. Is the definition of upstream activities in paragraphs 1.16-1.19 appropriate and, if not, how would you change it?

a. Yes, the definition is appropriate.
b. I would modify the definition as follows (please describe).

Basic Issue 1.3 – A single standard for both mining and petroleum

Should a single standard be developed for all extractive industries (that is, applicable to both mining and petroleum enterprises), or should separate standards be developed?

a. A single International Accounting Standard applying to both industries.

b. Separate International Accounting Standards for the mining industry and the petroleum industry.

c. A single International Accounting Standard with separate requirements or guidance for mining or petroleum as necessary to address industry-specific issues.

Basic Issue 2.1 – Phases of upstream activities

Are the operating phases in the upstream sector of the extractive industries appropriately described in Chapter 2?

a. Yes.

b. No (please explain).

Basic Issue 3.1 – A common set of reserve definitions for financial reporting by mining and petroleum enterprises

Should an International Accounting Standard on the extractive industries contain a common set of reserve definitions to be used by both mining and petroleum enterprises?

a. Yes, it is essential that both industries use a common set of definitions.

b. A common set of definitions is desirable but, for pragmatic reasons, the Standard should initially use the existing JORC definitions for mining enterprises and the existing WPC-SPE definitions for petroleum enterprises. However, a common set of definitions should be developed for the longer term.

c. Common definitions are not necessary. The Standard should use the existing JORC definitions for mining and the existing WPC-SPE definitions for petroleum.

d. Other (please explain).

Sub-issue 3.1.1 – Developing the common definitions

If a common set of definitions is to be developed, either for the initial IASC Standard on the extractive industries or for the longer term, who should develop those definitions?

a. IASC.

b. A joint industry group.

Sub-issue 3.1.2 – Probabilistic vs. deterministic approach to reserve definitions

The WPC-SPE petroleum reserve definitions allow an enterprise to choose whether to use a deterministic or a probabilistic approach to measuring reserve quantities. The JORC definitions are deterministic. If you believe that these definitions offer an appropriate starting point for use in an International Accounting Standard, should the standard require either the deterministic or the probabilistic approach for both petroleum and mining enterprises?

a. Deterministic for both petroleum and mining enterprises.

b. Probabilistic for both petroleum and mining enterprises.

c. Allow the choice for both petroleum and mining enterprises.

<u>Sub-issue 3.1.3 – Feasibility of probabilistic definitions for mining reserves</u>

The WPC-SPE petroleum reserve definitions allow an enterprise to choose whether to use a deterministic or a probabilistic approach to measuring reserve quantities. The JORC definitions are deterministic. Is it feasible to develop probabilistic definitions for mining reserves?

a. Yes.

b. No.

<u>Sub-issue 3.1.4 – Quantification of statistical probabilities</u>

If a probabilistic approach is used, the WPC-SPE definitions rely on a 90 per cent statistical probability for proved reserves, a 50-90 per cent or greater statistical probability for probable reserves, and a 10-50 per cent probability for possible reserves. If a probabilistic approach were either a requirement or an option, for petroleum or mining enterprises or both, are the WPC-SPE quantifications of probability appropriate for financial reporting?

a. Yes, the quantifications are appropriate.

b. Yes, in general quantifications are appropriate, but some modifications to those in the WPC-SPE definitions are needed (please elaborate).

c. No, the terms proved, probable, and possible should not be quantified. Instead, the degree of probability for each category should be expressed in narrative terms such as "with reasonable certainty") and left to the judgement of the expert making the estimate.

<u>Basic Issue 3.2 – Operating conditions and environment</u>

In making estimates of reserve quantities, what assumptions about operating conditions, such as expected technological developments, legal and regulatory environment, operating equipment, etc., should be made?

a. Assumptions that reflect operating conditions that exist as of the date of the estimate.

b. Assumptions that reflect all available evidence as to the operating conditions that will exist at the time the minerals will be produced (excluding development of a completely new technology unless it is supported by sufficient objective evidence).

<u>Basic Issue 3.3 – Levels of prices and costs</u>

In general, which price level would you use for measuring reserve quantities – assume that a consistent cost level will be used as well?

a. Current spot price.

b. Current spot price adjusted for contractual changes.

c. Current forward price.

d. Management's best estimate of the price expected to exist at the anticipated time of production.

<u>Basic Issue 3.4 – Income taxes</u>

If discounting of cash flows is necessary for purposes of estimating reserve quantities, should income taxes be considered as a cash outflow?

a. Yes.

b. No.

Basic Issue 3.5 – Discount rate

If discounting of cash flows is necessary for purposes of estimating reserve values, which discount rate would you use?

a. The rate on risk-free investments.
b. Risk-adjusted rate.
c. Weighted average long-term borrowing rate of the enterprise.
d. The enterprise's incremental long-term borrowing rate.
e. The enterprise's weighted average cost of capital.
f. The enterprise's "hurdle rate" for similar assets.
g. A standard rate prescribed for all enterprises in the extractive industries.
h. Other (please describe).

Basic Issue 4.1 – Historical cost concepts for petroleum enterprises

For petroleum enterprises, if one of the historical cost concepts were required for the primary financial statements, which of the following concepts, broadly defined, should be adopted? Each of these concepts is interpreted in a variety of ways in practice today. A discussion of the specific costs that might be capitalised under each concept is set out in Chapter 6.

a. A method more consistent with the successful efforts concept than with the other concepts.
b. A method more consistent with the area-of-interest concept than with the other concepts.
c. A method more consistent with the full cost concept than with the other concepts.
d. A method more consistent with the appropriation concept than with the other concepts.

Sub-issue 4.1.1 – Allow more than one concept for petroleum enterprises

For petroleum enterprises, should an accounting standard allow an enterprise to choose among more than one historical cost concept in the primary financial statements and, if so, which concept should be permitted?

a. No. The standard should require a single concept for all enterprises.
b. Yes. The standard should allow all enterprises to choose among the following concepts (please describe).

Basic Issue 4.2 – Historical cost concepts for mining enterprises

For mining enterprises, if one of the historical cost concepts were required for the primary financial statements, which of the following concepts, broadly defined, should be adopted? Each of these concepts is interpreted in a variety of ways in practice today. (A discussion of the specific costs that might be capitalised under each concept is set out in Chapter 6.)

a. A method more consistent with the successful efforts concept than with the other concepts.
b. A method more consistent with the area-of-interest concept than with the other concepts.
c. A method more consistent with the full cost concept than with the other concepts.
d. A method more consistent with the appropriation concept than with the other concepts.

<u>Sub-issue 4.2.1 – Allow more than one concept for mining enterprises</u>

For mining enterprises, should an accounting standard allow an enterprise to choose among more than one historical cost concept in the primary financial statements and, if so, which concepts should be permitted?

a. No. The standard should require a single concept for all enterprises.

b. Yes. The standard should allow all enterprises to choose among the following concepts (please describe).

<u>Basic Issue 5.1 – Basis of primary financial statements: petroleum enterprises</u>

For petroleum enterprises, should the primary financial statements be based on a historical cost concept or a value-based concept of accounting for preproduction activities and reserves? In answering, assume that whichever concept is used in the primary financial statements, disclosures on the other basis could be required.

a. A historical cost concept.

b. A value-based concept.

<u>Basic Issue 5.2 – Basis of primary financial statements: mining enterprises</u>

For mining enterprises, should the primary financial statements be based on a historical cost concept or a value-based concept of accounting for preproduction activities and reserves? In answering, assume that whichever concept is used in the primary financial statements, disclosures on the other basis could be required.

a. A historical cost concept.

b. A value-based concept.

<u>Basic Issue 5.3 – Which value based concept</u>

If a value-based concept of accounting for preproduction activities and reserves is required for the primary financial statements, which of the following concepts, broadly defined, should be adopted?

a. Discovery value concept.

b. Current value concept.

c. Other (please explain).

<u>Basic Issue 5.4: Which reserves</u>

If either discovery value accounting or current value accounting is used in the primary financial statements, for which reserves should value be computed?

a. Proved developed.

b. Only that portion of proved developed reserves that is currently in production.

c. All proved (developed and undeveloped).

d. All proved plus probable.

e. All proved plus probable and possible.

Basic Issue 5.5 – Which concept of value

If the primary financial statements were based on the values of reserves, on what concept of value should the values of mineral reserves be based?

a. Fair value.
b. Net selling price.
c. Expected exit value in the due course of business.
d. Value in use.
e. A standardised measure" applying a single set of assumptions, including a standardised discount rate, to all enterprises.
f. Current replacement cost.
g. Other (please explain).

Basic Issue 5.6 – Presenting discovery values

If discovery value accounting is used in the primary statements, how should the initial discovery values be presented?

a. Recognise the value of reserves discovered in the current period in net profit or loss for the period and charge the related cumulative capitalised costs to expense.
b. Report the net discovery value in the current period as a separate component of shareholders' equity on the balance sheet. As the related minerals are produced and sold or transferred, the net discovery value recorded for the reserves produced would be transferred to retained earnings.
c. Report the net discovery value in the current period as a separate component of shareholders' equity on the balance sheet. As the related minerals are produced and sold or transferred, the net discovery value recorded for the reserves produced would be recognised in net profit or loss for the period.

Basic Issue 5.7 – Presenting current values

If current value accounting is used in the primary statements, how should value changes (including both new discoveries and changes in values of past discoveries) be presented in the financial statements?

a. Recognise the net change in reserve values in net profit or loss for the period.
b. Other (please explain).

Basic Issue 6.1 – Preacquisition prospecting and exploration costs

How should preacquisition prospecting and exploration costs be accounted for?

a. Expense all in the period in which they are incurred, no reinstatement.
b. Expense all but reinstate those costs that relate to commercially recoverable reserves that are subsequently discovered.
c. Capitalise all as an asset.
d. Defer all as an asset pending determination of whether commercially recoverable reserves are discovered.
e. Charge the cost directly to equity with reinstatement if it is determined that commercially recoverable reserves have been discovered.
f. Other (please explain).

<u>Sub-issue 6.1.1 – Nature of the asset</u>

If any preacquisition prospecting and exploration costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

<u>Basic Issue 6.2 – Mineral property direct acquisition costs</u>

How should mineral property direct acquisition costs (the direct costs of acquiring legal rights to undeveloped mineral properties) be accounted for? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. Expense all in the period in which they are incurred, no reinstatement.
b. Expense all but reinstate those costs that relate to commercially recoverable reserves that are subsequently discovered.
c. Capitalise all as assets.
d. Defer all as an asset pending determination of whether commercially recoverable reserves are discovered.
e. Charge the cost directly to equity with reinstatement.
f. Other (please explain).

<u>Sub-issue 6.2.1 – Nature of the asset</u>

If any mineral property direct acquisition costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

<u>Basic Issue 6.3 – Incidental property acquisition costs</u>

How should the incidental costs of acquiring undeveloped mineral properties (both payments to outsiders and internal costs attributable to acquiring the properties) be accounted for when incurred?

a. Expense all when incurred.
b. Treat all in the same way as direct property acquisition costs.
c. Treat payments to outsiders in the same way as direct property acquisition cost, but charge to expense all (or perhaps some) internal costs relating to the enterprise’s own personnel and services.

<u>Basic Issue 6.4 – Post-acquisition G&G exploration costs</u>

How should post-acquisition G&G exploration costs be accounted for? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. Expense all in the period in which they are incurred, no reinstatement.
b. Expense all but reinstate those costs that relate to commercially recoverable reserves that are subsequently discovered.
c. Capitalise all as assets.
d. Defer all as an asset pending determination of whether commercially recoverable reserves are discovered. If reserves are not found, charge the costs to expense. If reserves are found, capitalise related costs.
e. Charge the cost directly to equity with reinstatement.
f. Other (please explain).

<u>Sub-issue 6.4.1 – Nature of the asset</u>

If any post-acquisition G&G exploration costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

Basic Issue 6.5 – Post-acquisition drilling, trenching, and sampling exploration costs

How should post-acquisition drilling, trenching, and sampling exploration costs be accounted for? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. Expense all in the period in which they are incurred, no reinstatement.
b. Expense all but reinstate those costs that relate to commercially recoverable reserves that are subsequently discovered.
c. Capitalise all as an asset.
d. Defer all as an asset pending determination of whether commercially recoverable reserves are discovered.
e. Charge the cost directly to equity with reinstatement.
f. Other (please explain).

Sub-issue 6.5.1 – Nature of the asset

If any post-acquisition drilling, trenching, and sampling exploration costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

Basic Issue 6.6 – Post-acquisition evaluation or appraisal costs

How should post-acquisition evaluation or appraisal costs be accounted for? These are costs incurred to determine whether reserves are commercially recoverable. [Please ignore, for now, the question of an impairment test for any such capitalised costs]

a. Expense all in the period in which they are incurred, no reinstatement.
b. Expense all but reinstate those costs that relate to commercially recoverable reserves that are subsequently discovered.
c. Capitalise all as an asset.
d. Defer all as an asset pending determination of whether commercially recoverable reserves are discovered.
e. Charge the cost directly to equity with reinstatement.
f. Other (please explain).

Sub-issue 6.6.1 – Nature of the asset

If any post-acquisition evaluation or appraisal costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

Basic Issue 6.7 – Time limit on deferrals

If certain preproduction costs are deferred pending determination of whether commercially recoverable reserves were found, do you favour a time limit for any of these deferred cost categories, and if so what would that limit be? If your answer would be different for different categories of costs, please explain.

a. Different exact time limits, depending on the reason for the uncertainty.
b. Time limit would be imposed only if no activity is currently under way relating to the prospect.
c. No time limit.

<u>Basic Issue 6.8 – Development costs</u>

How should development costs be accounted for? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. Capitalise all as an asset.

b. Capitalise all development costs as an asset except those development costs that do not result in an asset that can be used in the production process, which should be charged to expense (for instance, the cost of a development dry hole).

c. Other (please explain).

<u>Sub-issue 6.8.1 – Nature of the asset</u>

If any development costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

<u>Basic Issue 6.9 – Construction costs</u>

How should construction costs be accounted for? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. If such costs relate to a single cost centre, capitalise the costs as part of the capitalised costs of that cost centre (normally depreciated on a unit-of-production basis if the life of the assets is coincident with the life of the mineral reserves, or on a straight-line basis if the economic life is less than the life of the reserves). If such costs relate to more than one cost centre, account for such costs as other property, plant, and equipment under IAS 16, Property, Plant and Equipment and depreciate on a time basis.

b. If such costs relate to a single cost centre, capitalise the costs as part of the capitalised costs of that cost centre (normally depreciated on a unit-of-production basis). If such costs relate to more than one mineral cost centre, allocate such costs to the various cost centre served and capitalise them as part of the capitalised costs of those cost centres, or depreciate the costs on a unit-of-production basis using the reserves expected to be recovered in all cost centres in which the asset will be used.

c. Other (please explain).

<u>Sub-issue 6.9.1 – Nature of the asset</u>

If any construction costs are capitalised or deferred as an asset, please describe your view as to the nature of the asset?

<u>Basic Issue 6.10 – Exploration and development costs after production</u>

Sometimes, exploration and development costs are incurred after production has begun. If that is the case, how would you treat the cost?

a. Treat as any other exploration or development cost.

b. Treat as a production cost.

c. Other (please describe).

Basic Issue 6.11 – Capitalisation of borrowing costs

Regardless of your view on capitalising costs of carrying undeveloped properties (Basic Issue 6.1), in general how should borrowing costs for expenditures in upstream activities be accounted for?

a. Allow both the benchmark (expense) and allowed alternative (capitalise) treatments under IAS 23.

b. Allow both IAS 23 treatments, but prohibit any capitalisation before property rights have been acquired, that is, borrowing costs during the period of prospecting activity should not be capitalised even though prospecting costs are deferred or capitalised.

c. Prohibit capitalisation in all cases.

Sub-issue 6.11.1 – Start of capitalisation

If borrowing costs relating to the capitalised costs of acquisition, exploration, and development of mineral properties are capitalised, when should capitalisation begin?

a. When the property is acquired.

b. When exploration begins.

c. When development begins.

d. Other (please explain).

Basic Issue 6.12 – Overhead costs

Can overhead attributable to activities whose costs are capitalised also be capitalised?

a. Yes.

b. No.

c. Other (please explain).

Basic Issue 6.13 – Carrying costs of undeveloped properties

How should the costs of carrying undeveloped mineral properties (other than financing costs and legal fees) be accounted for when incurred? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. Expense all when incurred.

b. Treat all as part of property acquisition costs and account for them in the same manner.

c. Treat unusual, nonrecurring carrying costs as part of property acquisition cost and account for them in the same manner, but charge to expense all routine carrying costs.

d. Capitalise certain costs by their nature (indicate which you would capitalise):

    i. Delay rentals paid on leased mineral properties until specified work (drilling exploratory wells on the property) is commenced.

    ii. Property taxes or rates taxes prior to production.

    iii. Accounting and record keeping costs.

    iv. Rates taxes or property taxes based on value.

    v. Legal costs to defend title.

    vi. Other (please describe).

Basic Issue 6.14 – Choice of cost centre

If the successful efforts or area of interest concept were adopted, for what cost centre would you accumulate costs? [Please ignore, for now, the question of an impairment test for capitalised costs]

a. the world;
b. each country or group of countries in which the enterprise operates;
c. each contractual or legal mineral acquisition unit;
d. each area of interest (for example, the field or the mine);
e. geological units other than areas of interest; and
f. the enterprise's organisational units.
g. Other (please describe).

Basic Issue 7.1 – Method of calculating depreciation

Which method is appropriate for calculating depreciation of various categories of capitalised costs included in a producing cost centre (see table below)? If your answer would be different for the mining industry and for the petroleum industry, please explain how and why it would be different.

a. Unit of production depreciation should be used for all categories of costs.
b. Straight-line (time-based) depreciation should be used for all categories of costs.
c. Unit-of-production depreciation should generally be used except in certain circumstances (please describe).
d. Other (please explain).

Note: Respondents to this Issues Paper may find the following table useful in developing their response.

Phases of Activity	**Use unit of production depreciation**	**Use straight line depreciation**	**Use another method of calculating depreciation (please describe)**
Prospecting costs			
Acquisition costs —proved properties			
Acquisition costs —unproved properties			
Exploration costs			
Appraisal and evaluation costs			
Development costs			
Construction costs			
Capitalised costs recognised when a provision is made (see Chapter 8)			
Capitalised removal and restoration costs (IAS 37)			

<u>Sub-issue 7.1.1 – Use of different methods</u>
If, in answering Basic Issue 7.1, you concluded it is appropriate to use straight-line depreciation on some assets in the minerals cost centre and unit-of-production depreciation on other assets in the cost centre, please explain why.

<u>Sub-issue 7.1.2 – Assets that serve, or are capable of serving, two or more cost centres</u>
What method of depreciation should be used for assets that serve, or are capable of serving, two or more cost centres?

a. Unit of production depreciation should be used for all categories of costs with the exception of assets whose life is shorter than the mineral reserves, for which IAS 16 should apply.
b. Straight-line (time-based) depreciation should be used for all categories of costs.
c. Unit-of-production depreciation should generally be used except in certain circumstances (please describe).
d. Other (please explain).

<u>Basic Issue 7.2 – Base for computing unit-of-production depreciation</u>
How should unit-of-production depreciation be computed?

a. Based on physical units.
b. The gross revenue approach (please explain which prices you would use).
c. The net revenue approach (please explain which prices and costs you would use).

<u>Basic Issue 7.3 – Base depreciation on quantity of ore or mineral content</u>

Is it permissible to compute depreciation based on the physical quantity of ore produced, or should depreciation be based on the physical quantities of the mineral content?

a. Ore produced.

b. Mineral content.

<u>Basic Issue 7.4 – Category of reserves for unit-of-production depreciation</u>

Assuming that the unit-of-production method is deemed appropriate for depreciation of capitalised preproduction costs once production has begun, on which category of reserves would you base depreciation of costs capitalised for each phase of activity in the table below? Assume that costs have been appropriately adjusted to reflect the reserves used in the calculation. If your answer would be different for the mining industry and the petroleum industry, please indicate how and why. If none of the four columns represents your view, please explain.

Phase of Activity *In answering this question, assume that costs relating to the phase identified below will be capitalised*	**Depreciate based on proved developed reserves**	**Depreciate based on proved developed and undeveloped reserves**	**Depreciate based on proved and all or part of probable reserves**	**Depreciate based on proved, probable, and possible reserves**
Prospecting costs				
Acquisition costs — proved properties				
Acquisition costs — unproved properties				
Exploration costs				
Appraisal and evaluation costs				
Development costs				
Construction costs				
Capitalised costs recognised when a provision is made (see Chapter 8)				
Capitalised removal and restoration costs (IAS 37)				

Sub-issue 7.4.1 – Consideration of proved undeveloped reserves in computing depreciation

If only proved developed reserves are used in computing depreciation in a cost centre, what consideration, if any, should be given to proved undeveloped reserves, including costs already incurred on such reserves and future costs to develop the reserves? If your answer would be different for petroleum industry and mining industry, please explain how and why.

a. Depreciate all incurred costs, including those attributable to proved undeveloped reserves.
b. Depreciate only those incurred costs attributable to the proved developed reserves. Do not depreciate costs attributable to proved undeveloped reserves.
c. Other (please explain).

Sub-issue 7.4.2 – Depreciation and future preproduction costs

If only proved (but not probable or possible) reserves are to be included in the reserve base for calculating unit-of-production depreciation, what consideration, if any, should be given to future costs to complete the development of proved undeveloped reserves (estimated future exploration, appraisal, development, and construction costs)?

a. Add to depreciable incurred costs the estimated future costs for exploration and development that will be necessary to develop the proved undeveloped reserves (but not the costs necessary to develop probable reserves).
b. Add to depreciable incurred costs the estimated future costs for exploration, appraisal, and development that will be necessary to develop the proved undeveloped and probable reserves.
c. Do not add estimated future costs to the depreciable base.

Sub-issue 7.4.3 – Depreciation and future preproduction costs

If all proved and probable (but not possible) reserves are to be included in the reserve base for calculating unit-of-production depreciation, what consideration, if any, should be given to future costs to complete the development of undeveloped reserves (estimated future exploration, appraisal, development, and construction costs)?

a. Add to depreciable incurred costs the estimated future costs for exploration and development that will be necessary to develop the proved undeveloped reserves (but not the costs necessary to develop probable reserves).
b. Add to depreciable incurred costs the estimated future costs for exploration, appraisal, and development that will be necessary to develop the proved undeveloped and probable reserves.
c. Do not add estimated future costs to the depreciable base.

Sub-issue 7.4.4 – Depreciation and future preproduction costs

If all proved and probable and possible reserves are to be included in the reserve base for calculating unit-of-production depreciation, what consideration, if any, should be given to future costs to complete the development of undeveloped reserves (estimated future exploration, appraisal, development, and construction costs)?

a. Add to depreciable incurred costs the estimated future costs for exploration and development that will be necessary to develop the proved undeveloped reserves (but not the costs necessary to develop probable or possible reserves).

b. Add to depreciable incurred costs the estimated future costs for exploration, appraisal, and development that will be necessary to develop the proved undeveloped and probable and possible reserves.

c. Do not add estimated future costs to the depreciable base.

Basic Issue 7.5 – Depreciation if joint products are produced: quantities or revenues

When joint products are produced, should depreciation be based on the production quantity or revenue?

a. Quantities.

b. Revenues.

c. Other (please explain).

Basic Issue 7.6 – Change in reserve estimates

Should the general requirement in IAS 8 that changes in estimates affecting depreciation should be reflected prospectively (affecting the current and future periods) and not retrospectively (affecting past periods as well as the current and future periods) apply to a change in reserve estimates?

a. Yes.

b. No (please explain).

Basic Issue 8.1 – Applicability of IAS 37

Should the general requirements of IAS 37 be applied in recognising and measuring future removal and restoration provisions by enterprises in the extractive industries?

a. Yes, IAS 37 should be applied.

b. No, IAS 37 should be modified in its applicability to enterprises in the extractive industries (please explain).

<u>Basic Issue 8.2 – Provision arising when an asset is installed</u>

Should an enterprise capitalise as part of the cost of the related asset the amount of a provision established for subsequent removal and restoration where the liability for performing such work is caused by the installation of the facility (illustrated in the oil rig example in Appendix C to IAS 37)?

a. Yes, the amount of the provision is part of the cost of acquiring the asset, and is depreciated, as illustrated in IAS 37.

b. No, the amount of the provision should be capitalised as a separate asset and amortised as reserves are produced (IAS 37 should be amended).

c. No, the amount of the provision should be charged to expense when the asset is acquired (IAS 37 should be amended).

d. No, the amount of the provision should be capitalised as a separate asset and remain, with no amortisation, to be charged to expense when the removal and restoration occur (IAS 37 should be amended).

<u>Basic Issue 8.3 – Removal and restoration arising as a result of production</u>

How should an enterprise recognise a provision for removal and restoration that results from production activities subsequent to the installation?

a. Capitalise as part of the cost of the related asset the amount of a provision established for removal and restoration where the liability for performing such work is caused by the production of minerals after the asset has been installed and future periods will benefit from the activities that gave rise to the need for removal and restoration. Expense in other circumstances.

b. Charge the costs to expense immediately.

c. Other (please explain).

<u>Basic Issue 8.4 – Discount rate</u>

Should the discount rate used in measuring a provision be the same as the rate used in assessing impairment?

a. Yes (please discuss).

b. No (please discuss).

<u>Basic Issue 8.5 – Changes in provisions other than for changes in the discount rate</u>

Should changes in the estimated amount of a provision for removal and restoration after it is initially recorded (other than those resulting from changes in the discount rate – see next issue) be recognised in subsequent periods?

a. Yes.

b. No, the obligation is fixed when the provision is initially recognised.

<u>Basic Issue 8.6 – Changes in the discount rate</u>

Should changes in the discount rate(s) in periods after a provision for removal and restoration is initially recorded be considered in calculating the provision needed in subsequent periods?

a. Yes, use the current market assessment of the discount rate.

b. No, the discount rate is fixed when the provision is initially recognised.

Basic Issue 8.7 – Treatment of the effect of a change in a provision

If a change is recognised in the amount of a provision after the provision is initially recognised, does the amount of the change adjust the carrying amount of any asset arising from the original recognition of the provision, or is it reported in net profit or loss for the period?

a. Adjust the carrying amount of the asset only where borrowing costs are capitalised.
b. Adjust the carrying amount of the asset in all cases.
c. Report it in net profit or loss for the period.

Basic Issue 8.8 – Deposits to fund dismantlement, removal and abandonment

If an enterprise is required to contribute to a statutory fund for dismantlement, removal and abandonment, should the deposits contributed to the fund be recognised as an asset?

a. Yes: where the deposits can be relied upon to reduce the amount of the liability for dismantlement, removal, and abandonment.
b. No (please explain).

Basic Issue 9.1 –Reserve category for impairment

Your response to the issues in Chapter 6 indicated which costs you would capitalise as relating to reserves, including whether you would capitalise costs whose outcome is not yet known (paragraphs 6.29-6.30). Consistent with that response, which category of reserve quantities would you use for assessing impairment of those capitalised costs to which reserves have been attributed?

a. Proved developed only.
b. Proved developed and undeveloped only.
c. Proved and probable only.
d. Proved, probable, and possible.
e. No specific reserve category. Instead, Management's best estimate of likely cash flows.
f. Other (please explain).

If your answer would be different depending on whether successful efforts, area-of-interest, or full cost is applied, please explain.

Basic Issue 9.2 – Cash generating unit

IAS 36 provides that in estimating value in use, cash flows should be identified with individual assets, if possible. If this is not possible, cash flows should be determined for the smallest cash-generating unit (CGU) possible. In general, how should the CGU be identified for assessing impairment of preproduction costs?

a. Same as the cost centre.
b. Geologically determined.
c. Based on how the activity is managed.
d. Geopolitical boundaries.
e. The extractive industries Standard should not provide industry-specific guidance regarding the CGU.
f. Other (please describe).

<u>Basic Issue 9.3 – Discount rate</u>

IAS 36 provides guidance for determining the discount rate to be used in measuring impairment of mineral assets, including a provision that a pre-tax rate should be used. Is industry-specific guidance needed in an accounting standard for the extractive industries?

a. Yes (please explain).

b. No, the general guidance in IAS 36 is appropriate.

<u>Basic Issue 9.4 – Reversal of impairment provisions</u>

IAS 36 calls for the reversal of impairment provisions if there is a recovery in the value of an asset or cash-generating unit on which impairment has been recorded. Are there special considerations involving reversals of impairment of mineral assets that should be included in a Standard issued on accounting for the extractive industries?

a. Yes (please explain).

b. No, the general guidance in IAS 36 is appropriate.

<u>Basic Issue 9.5 – Impairment of deferred preproduction costs that are not attributed to a cash generating unit</u>

If any preproduction costs are deferred until success or failure is known, how should impairment be assessed?

a. Follow IAS 36.

b. Impose a time limit. It might be (a) an exact time limit such as one year or two years or (b) a time limit that is invoked only if no activity is currently under way relating to the cash generating unit.

c. If there is a large homogeneous group of properties, depreciate the deferred preproduction costs on some systematic basis as a surrogate for impairment.

d. A combination of the above depending on the nature of the asset (please explain).

e. Exclude the costs from an impairment test because impairment cannot be measured.

<u>Basic Issue 10.1 – Include extractive industries under IAS 18?</u>

IAS 18, Revenue, does not apply to revenue arising from "the extraction of mineral ores". If revenue issues unique to upstream activities in the extractive industries are addressed in an extractive industries Standard, should IAS 18 be amended to eliminate the scope exclusion?

a. Yes, IAS 18 should be amended to eliminate the scope exclusion. The extractive industries Standard should address unique revenue recognition issues.

b. No (please explain which aspects of IAS 18 are not appropriate for the extractive industries).

<u>Basic Issue 10.2 – Recognition of revenue from minerals that can be sold in ready markets</u>

If minerals produced by an extractive industries enterprise have quoted market prices in active markets with a short time between production and sale and insignificant costs to be incurred beyond the point of production, and the minerals are intended to be sold in that market, when should revenue be recognised?

a. At the point in the production process at which the minerals are first capable of being sold.
b. At the point at which a sale contract is entered into.
c. When the general criteria for revenue recognition from the sale of goods in IAS 18, Revenue, have been met.

<u>Sub-issue 10.2.1 – Recognition of revenue from minerals that can be sold in ready markets but that will be used internally</u>

If minerals described in Basic Issue 10.2 (quoted market prices, active markets, insignificant after-production costs) are intended to be further processed by the enterprise – that is, to be transferred within the enterprise for use in downstream activities – when should revenue be recognised?

a. At the point in the production process at which the minerals are first capable of being sold.
b. At the point at which a sale contract is entered into.
c. When the general criteria for revenue recognition from the sale of goods in IAS 18, Revenue, have been met.

<u>Basic Issue 10.3 – Revenue received prior to the production phase</u>

If some minerals are produced and sold prior to the beginning of the production phase – for example, during testing in the development phase – how should the proceeds be accounted for?

a. As revenue or other income.
b. As a reduction of capitalised costs.

<u>Basic Issue 10.4 – Revenue from an undertake, with a makeup period</u>

If minerals are produced and sold at a fixed or determinable price under a sale contract that requires delivery of a minimum quantity and sometimes a maximum quantity (such as a take-or-pay contract), and the minimum quantity is not taken, but the contract does allow a fixed amount of time for the buyer to make up any minimum quantity not taken, when should revenue from the undertake be recognised?

a. In the period in which the undertake occurred, without regard to the makeup period.
b. At expiry of the makeup period.
c. At the earlier of expiry of the makeup period and when it becomes obvious that there will not be a complete makeup.
d. At the time payment is received for the undertake.

<u>Basic Issue 10.5 – Overlifts and underlifts</u>

If, in a given period, a participant in a joint venture takes and sells more than its share of production (overlift) or less than its share of production (underlift), how should the imbalance be accounted for?

a. Sales method.
b. Entitlements method.
c. Other (please explain).

<u>Sub-issue 10.5.1 – Sales method: adjustment of production costs?</u>

If the sales method is used to account for an overlift (underlift) imbalance, should the owner in an overlift situation record a liability and an increase to operating expenses (or, in an underlift situation, a prepaid expense and a reduction of operating expenses) for the share of expenses related to the imbalance paid (owed) by the owner?

a. Yes.
b. No.

<u>Sub-issue 10.5.2 – How to price overlifts and underlifts</u>

If the joint operating agreement (contract) provides for makeups (overlifts and underlifts) in quantities without specifying a particular price, what price should be used to price overlifts and underlifts for accounting purposes?

a. Please describe the price you would use.

<u>Basic Issue 10.6 – Royalties paid in cash</u>

How should the producer account for cash royalties owed to the royalty owner? [Note: It is generally recognised that measurement of the producer's reserve quantities should be consistent with the inclusion or exclusion of royalty amounts in the producer's gross revenue.]

a. Include royalty amount in producer's gross revenue and deduct the amount paid to the royalty owner as an expense.
b. Exclude the royalty amount from the producer's net revenue.

<u>Sub-issue 10.6.1 – Royalties taken in kind</u>

If the royalty owner takes production in kind, rather than a cash payment, how should the producer account for the royalty quantity of production?

a. Include the value of the production taken by the royalty owner in producer's gross revenue and deduct that amount as an expense.
b. Exclude the royalty amount from the producer's net revenue.

<u>Basic Issue 10.7 – Severance taxes</u>

Should severance taxes paid in cash (rather than in kind) be included in the producer's revenue and expenses?

a. Yes, include.
b. No, exclude.

<u>Basic Issue 11.1 – Recognition of work-in-process inventories</u>

At what point in the production process should an extractive industries enterprise recognise work-in-process inventories?

a. When first segregated.
b. When brought to the surface.
c. After crude field-type processing.
d. After fine processing and by-product separation.
e. Do not recognise work-in-process inventories.

<u>Basic Issue 11.2 – Recognition of finished goods inventories</u>

At what point in the production process should an extractive industries enterprise recognise finished goods?

a. When first segregated.
b. When brought to the surface.
c. After crude field-type processing.
d. After fine processing and by-product separation.
e. Do not recognise finished goods inventories.

<u>Basic Issue 11.3 – Cost or fair value basis for measuring inventories</u>

If minerals produced by a extractive industries enterprise have quoted market prices in active markets with a short time between production and sale and insignificant costs to be incurred beyond the point of production, and the minerals are intended to be sold in that market, should those inventories be measured on the basis of historical costs or on the basis of fair value (net realisable value)?

a. Historical cost basis (lower of cost and net realisable value).
b. Fair value basis (net realisable value).

<u>Basic Issue 11.4 – Items included in inventory cost</u>

If the historical cost approach to measuring inventories is used as described in IAS 2, which of the following items should be included in costs for this purpose (you can choose more than one)?

a. Direct out-of-pocket costs (does not include depreciation and overhead).
b. Depreciation of capitalised preproduction costs.
c. Depreciation of the producing facilities.
d. Overhead related directly to the production function.
e. General overhead costs allocated from higher levels in the organisation.
f. Other (please explain).

<u>Basic Issue 11.5 – Joint products</u>

How should production costs be allocated between the joint products?

a. On the basis of physical measures (such as weight, volume, and energy content).
b. On the basis of relative values.
c. Should not be allocated.
d. Other (please explain).

<u>Basic Issue 12.1 – Recognition or nonrecognition of a gain and loss on inception of an agreement</u>

Should an International Accounting Standard establish general rules for recognition or nonrecognition of a gain or loss at the inception of a cost sharing arrangement, that is, when the parties have fulfilled their obligations under the agreement? Alternatively, instead of establishing general rules, should an International Accounting Standard establish specific rules for recognition or nonrecognition of a gain or loss for specific types of risk and cost sharing arrangements (for instance, farm outs, unitisations, and carried interests) from which principles for other types of arrangements can be analogised?

a. IASC should develop general rules (as part of your response, please identify what those general rules should be and their relation to existing International Accounting Standards).

b. IASC should develop specific rules for farm outs, unitisations, carried interests, and perhaps a few other types of arrangements rather than general rules (as part of your response, please identify what those specific rules should be and their relation to existing International Accounting Standards).

In responding to Issues 12.2 through 12.7, please assume that specific rules for specific kinds of arrangements will be developed.

<u>Basic Issue 12.2 – Transferor accounting for a farm-out and similar arrangements</u>

Should any profit or loss be recognised by the transferor on the transfer of a share of the mineral interest in a property in exchange for exploration and development of that property by the transferee, such as in a farm out as described in paragraphs 12.8-12.9?

a. Yes (please explain your reasons).

b. No (please explain your reasons).

<u>Sub-issue 12.2.1 – Transferor accounting for costs of interest given up</u>

If the transferor recognises no profit or loss on the transaction, how should the costs related to the interest in the property given up be accounted for by the transferor?

a. Treated entirely as the cost of the mineral interest retained.

b. Allocated between the mineral interest retained and the services or assets provided by the transferee (accounting for the portion allocated to services or assets provided by the transferee would depend on the approach to historical cost accounting used by the enterprise in accounting for preproduction costs).

c. Other (please describe).

<u>Sub-issue 12.2.2 – Measurement of profit or loss by transferor</u>

If the transferor does recognise a profit or loss on the transaction, how should the profit or loss be measured?

a. Comparison of value of assets or services received with the cost of the mineral interest transferred.

b. Comparison of value of assets or services received with the value of the mineral interest transferred.

c. Other (please describe).

<u>Basic Issue 12.3 – Transferee accounting for farm-outs and similar conveyances</u>

If an enterprise (transferee) receives a mineral interest in a property in return for exploring and developing that property, such as in a farm out as described in paragraphs 12.8-12.9, should the transferee recognise a profit or loss from carrying out the exploration and development?

a. Yes (please explain your reasons).
b. No (please explain your reasons).

<u>Sub-issue 12.3.1 – Transferee accounting for costs incurred</u>

If the transferee recognises no profit or loss on the transaction, how should the costs incurred in the exploration and development be accounted for by the transferee?

a. Treated entirely as exploration and development costs (accounting for the exploration and development costs by the transferee would depend on the approach used in accounting for similar preproduction costs).
b. Allocated between the mineral interest received and exploration and development costs (accounting for the exploration and development costs by the transferee would depend on the approach used by the transferee in accounting for similar preproduction costs).
c. Other (please describe).

<u>Sub-issue 12.3.2 – Measurement of profit or loss by transferee</u>

If the transferee does recognise a profit or loss on the transaction, how should the profit or loss be measured?

a. Comparison of value of the mineral interest received with the share of the exploration and development cost related to the mineral interest retained by the transferor.
b. Other (please describe).

<u>Basic Issue 12.4 – Accounting for carried interests</u>

Would you propose any different accounting for a carried interest, by either the transferor (the carried party) or the transferee (the carrying party), than you recommend for farm-outs in your responses to Basic Issues 12.1, 12.2, and 12.3 and related Sub-issues?

a. Yes (please explain).
b. No.

<u>Basic Issue 12.5 – Accounting for unitisations, no cash payment</u>

If a unitisation does not involve a cash equalisation payment by one party to the other party(ies), would you propose any different accounting for a unitisation than you recommend for farm-outs in your responses to Basic Issues 12.1, 12.2, and 12.3 and related Sub-issues?

a. Yes (please explain).
b. No.

Basic Issue 12.6 – Accounting for unitisations with a cash payment for equalisation: recipient

If a unitisation involves a cash equalisation payment by one party to the other party(ies), how should the recipient account for the payment?

a. The recipient treats the equalisation payment as a recovery of the carrying amount of the specific costs for which equalisation is being made. If the amount received exceeds that carrying amount, a gain is recognised.

b. The recipient treats the equalisation payment as a recovery of the carrying amount of the recipient's total investment. Only if the amount received exceeds that carrying amount is a gain recognised.

Basic Issue 12.7 – Accounting for unitisations with a cash payment for equalisation: payer

If a unitisation involves a cash equalisation payment by one party to the other party(ies), how should the payer account for the payment?

a. Payer treats the payment as part of its investment in the property.

b. Other (please describe).

Basic Issue 12.8 – Joint ventures

Should joint ventures created and operated under joint operating agreements in the extractive industries be accounted for as provided in IAS 31, or should special provision be made for joint ventures in the extractive industries?

a. They should be accounted for by proportionate consolidation, the benchmark treatment permitted by IAS 31.

b. They should be accounted for by the equity method, the allowed alternative permitted by IAS 31.

c. An enterprise should have a choice of using proportionate consolidation or the equity method, as currently permitted by IAS 31.

d. No. Special rules of accounting for joint ventures in the extractive industries should be provided in any Standard for the extractive industries (please explain).

Basic Issue 12.9 – Cash consideration in a unitisation

How should cash consideration paid and received in a unitisation or similar arrangement be accounted for?

a. The recipient of cash reports a reduction of the asset account (with any excess to profit or loss) and the payer reports additional investment in property.

b. Some other approach (please specify).

Basic Issue 12.10 – Nonrecoverable costs incurred by contractor in PSC

How should the contractor in a PSC account for exploration and development costs that are not recoverable from production?

a. Account for the costs in the same way they would be accounted for if the contractor owned the reserves.

b. Some other approach (please specify).

<u>Basic Issue 12.11 – Recoverable costs incurred by contractor in PSC</u>

How should the contractor in a PSC account for exploration and development costs that are recoverable from production?

a. Account for the cost in the same way they would be accounted for if they were not recoverable.

b. Account for recoverable amounts as if they are receivables.

c. Some other approach (please specify).

<u>Basic Issue 12.12 – Infrastructure costs required to be installed by contractor</u>

How should the contractor in a PSC account for infrastructure costs that are required by the government to be installed?

a. If costs are necessary in order to secure contract, treat the costs as mineral acquisition costs.

b. Consider the costs to be acquisition, exploration or development costs, depending on the point in operations that they are incurred.

c. Some other approach (please specify).

<u>Basic Issue 12.13 – Cost recovery oil</u>

How should the contractor in a PSC account for proceeds of sale, or value of oil taken, relating to cost recovery oil?

a. As revenue from production.

b. As reduction of cost for which recovery is being received.

c. Some other approach (please specify).

<u>Basic Issue 12.14 – Depreciation of capitalised costs</u>

How should the contractor in a PSC depreciate capitalised costs?

a. In the usual manner (mainly through unit-of-production).

b. On a contractual basis.

c. Some other approach (please specify).

<u>Basic Issue 12.15 – Assets to which title has passed to government</u>

How should the contractor in a PSC account for the cost of assets to be used in production when title to the assets has passed to the host government?

a. As an expense.

b. As an asset, as if title was retained by contractor.

c. Some other approach (please specify).

<u>Basic Issue 12.16 – Inclusion of cost recovery oil in reserves for purposes of depreciation and impairment</u>

Should the contractor include in reserves to be used for calculating depreciation and impairment those barrels of oil expected to be received as cost recovery oil?

a. Include the barrels for those purposes, even if the recovered amount is treated as reduction of asset accounts.

b. Include the barrels for those purposes only if the recovered amount is included in revenues.

c. Some other approach (please specify).

<u>Basic Issue 12.17 – Contractor's expected reserves if title is not held to reserves</u>

Should the contractor include in reserve disclosures expected reserves if title to the reserves is not held by the contractor but is held by the government?

a. Include these reserves along with other reserves as though the contractor held title to them.

b. Disclose such reserves, but show them separately from reserves to which contractor holds title.

c. Do not disclose reserves to which title is retained by the government.

d. Some other approach (please specify).

<u>Basic Issue 12.18 – Income taxes of contractor paid by a government oil company</u>

How should the contractor account for income taxes paid on its behalf by a government oil company out of production, and the related production taken by the government?

a. Report the amount taken as taxes in the income statement as revenue and as income taxes paid

b. Ignore both the income tax and the production involved

c. Some other approach (please specify)

<u>Basic Issue 13.1 – Purchased exploration</u>

If an enterprise acquires an undeveloped mineral property that has been partly explored, should the cost of the property include the portion of the purchase price deemed to apply to the seller's exploration costs or other costs that the acquirer would charge to expense if it had incurred those costs directly?

a. Yes, those costs should remain as part of the cost of the purchased mineral property.

b. No, the portion of the purchase price relating to the seller's prospecting and exploration costs should be charged to expense at the time of the acquisition.

<u>Basic Issue 13.2 – Purchase of mineral property - allocation of purchase price</u>

If an enterprise acquires a mineral property that has been partially or fully developed, how should the acquisition cost be allocated between (a) the mineral property, (b) tangible equipment and other tangible assets, and (c) intangible development costs?

a. Record tangible assets at estimated fair value, with the excess of purchase price to mineral property, none to an intangible asset.

b. Record both tangible assets and intangible assets at estimated fair value, with the excess of purchase price to mineral property.

c. Record identifiable tangible and intangible assets at estimated fair value, with the excess of purchase price to goodwill

<u>Basic Issue 13.3 – Allocation of cost of a portfolio of mineral properties</u>

If an enterprise acquires a portfolio of mineral properties, how should the acquisition cost be allocated to individual properties?

a. First assign the cost to each proved property based on its estimated fair value and then assign the remainder to unproved properties.

b. Allocate the cost to each proved and unproved property based on their estimated relative fair values, and recognise no goodwill.

c. Allocate the cost to each proved and unproved property based on its estimated fair value, and recognise the excess as goodwill.

d. Other (please describe).

<u>Basic Issue 13.4 – Purchase of an enterprise - allocation of purchase price</u>

If an enterprise purchases another enterprise that has been engaged in exploration and production activity, should any portion of the purchase price be allocated to goodwill?

a. Yes. Record the mineral property and tangible assets acquired at their estimated fair values (and possibly to identifiable intangible assets as well), with the excess of purchase price allocated to goodwill.

b. No. Record the tangible assets acquired at their estimated fair values (and possibly identifiable intangible assets as well), with the excess of purchase price allocated to the mineral property and none to goodwill.

<u>Basic Issue13.5 – Sale of a noncommercial property that is part of a group (portfolio)</u>

If one noncommercial mineral property is sold for an amount different from the carrying amount of that individual property, and that property is part of a group of properties that is being accounted for as a portfolio, should a gain or loss be recognised on the sale?

a. Yes (please explain).

b. No (please explain).

<u>Basic Issue 13.6 – Gain or loss recognition on sale of partial interests</u>

If an enterprise sells a part of its interest in a noncommercial mineral property that is not being accounted for as part of a group [see Basic Issue 13.4], while retaining the remaining interest, should a gain or loss be recognised? Please explain your reasoning.

a. Yes, no matter whether the sale is of a divided interest or an undivided interest.

b. Yes, but only if the sale is of a divided interest.

c. No in either case.

<u>Basic Issue 13.7 – Sale of partial interest in a property with commercially recoverable reserves</u>

If an enterprise sells a part of its interest in a commercial mineral property for an amount different from the carrying amount of the interest sold, and that property is an individual cost centre, should a gain or loss be recognised on the sale? Please explain your reasoning.

a. Yes, no matter whether the sale is of a divided interest or an undivided interest.

b. Yes, but only if the sale is of a divided interest.

c. No in either case.

<u>Sub-issue 13.7.1 – Allocation of carrying amount</u>

If an enterprise sells a divided interest in a commercial mineral property, and gain or loss is to be recognised, how should the carrying amount of the property be allocated between the interest sold and the interest retained?

a. Relative fair values of the properties.

b. Relative quantities of commercial reserves sold and commercial reserves retained.

c. Other (please explain).

<u>Basic Issue13.8 – Sale of a property with commercially recoverable reserves that is part of a depreciable cost centre</u>

If one commercial mineral property is sold and that property is part of a larger depreciable cost centre, should a gain or loss be recognised on the sale?

a. Yes (please explain how the gain or loss on the individual property would be calculated).

b. No. The proceeds should be treated as a recovery of cost of the group of properties.

<u>Basic Issue 13.9 – Retirement or abandonment of an asset that is part of a group</u>

Should a gain or loss be recognised on the retirement or abandonment of an individual asset that is part of a group of assets on which depreciation is being computed (for example, all of the assets in a mine)?

a. Yes (please explain how gain or loss on the individual property would be calculated).

b. No.

c. Depends on the circumstances (please explain).

<u>Basic Issue 14.1 – Supplemental reserve disclosures (quantity or value)</u>

If a historical cost based method is used for the primary financial statements, do you favour supplemental disclosures based on quantities or values of reserves?

a. Favour disclosure of reserve quantities but not reserve values.

b. Favour disclosure of reserve quantities and reserve values.

c. Do not favour disclosure of reserve quantities or reserve values.

<u>Basic Issue 14.2 – Disclosure of reserve quantities by geographical area</u>

If reserve quantities are disclosed, should the disclosure be on an enterprise-wide basis or subdivided geographically or geologically?

a. Enterprise-wide.

b. Home country plus other significant countries individually.

c. Geographical groupings that reflect differences in risk.

d. Geological groupings.

e. Individually significant mines or fields, and in total for other reserves.

f. Other.

<u>Basic Issue 14.3 – Categories of reserves for quantity disclosures</u>

If reserve quantities are to be disclosed, which separate categories of reserves would you use for disclosure of reserve quantities?

a. Proved developed only.

b. Proved only (both developed and undeveloped). Note that Sub-issue 14.3.1 asks about disclosing these separately or combined.

c. Proved and probable only. Note that Sub-issue 14.3.2 asks about disclosing these separately or combined.

d. Proved, probable, and possible. Note that Sub-issue 14.3.3 asks about disclosing these separately or combined.

<u>Sub-issue 14.3.1 – Proved developed and undeveloped combined or separately</u>

If total proved reserve quantities are to be disclosed, should separate disclosure be required of proved developed and proved undeveloped reserve quantities?

a. Disclose proved developed and proved undeveloped separately.
b. Disclose a combined measure of proved developed and undeveloped reserves.

<u>Sub-issue 14.3.2 – Proved and probable combined or separately</u>

If proved and probable reserve quantities are to be disclosed, should separate disclosure be required of proved and probable reserve quantities?

a. Disclose proved and probable separately.
b. Disclose a combined measure of proved and probable reserves.

<u>Sub-issue 14.3.3 – Proved, probable, and possible combined or separately</u>

If proved, probable, and possible reserve quantities are to be disclosed, should separate disclosure be required of proved, probable, and possible reserve quantities?

a. Disclose proved, probable, and possible separately.
b. Disclose a combined measure of proved, probable, and possible reserves.

<u>Basic Issue 14.4 – Disclosure of mineral resources</u>

Should quantities of estimated mineral "resources" be disclosed, and if so what categories of resources should be disclosed?

a. Measured, indicated, and inferred resources quantities.
b. Only measured and indicated resources quantities.
c. Only measured resource quantities.
d. Allow an enterprise to choose between (b) and (c) above, but inferred resources should not be disclosed.
e. Resources should not be disclosed.

<u>Basic Issue 14.5 – Disclosure of grade factors for minerals</u>

If mineral reserve quantities are disclosed by mining enterprises, should grade factors and content or mix of minerals be disclosed?

a. Yes.
b. No.
c. Other (please explain).

<u>Basic Issue 14.6 – Number of periods for reserve quantity disclosures</u>

If reserve quantities are to be disclosed, for how many financial periods should they be disclosed?

a. Current period only.
b. Current period and immediately preceding comparable period.
c. Each period for which financial statements are presented.
d. Other (please describe).

<u>Basic Issue 14.7 – Reconciliation of proved reserve quantities</u>

If a schedule reconciling beginning and ending proved reserves is presented, are the following line items appropriate?

- **Revisions of previous estimates.**
- **Production.**
- **Discoveries and extensions.**
- **Additions as the result of installing improved recovery methods.**
- **Purchases of commercial reserves in place (that is, purchases of mineral properties).**
- **Sales of commercial reserves in place (that is, sales of mineral properties).**
- **Other changes.**

a. Yes.

b. No (please explain).

<u>Basic Issue 14.8 – Reconciliation of probable reserves</u>

If a schedule reconciling beginning and ending probable reserves is presented, are the line items identified in Basic Issue 14.7 appropriate, except that "transfers to proved reserves" would replace "production"?

a. Yes.

b. No (please explain).

<u>Basic Issue 14.9 – Disclosure of an equity method associate's reserves</u>

How, if at all, should an investor report its share of reserves controlled by an associate accounted for under the equity method?

a. The investor should combine its share of the associate's reserves with those controlled directly by the investor.

b. The investor should disclose its share of the associate's reserves separately from the reserves controlled directly by the investor.

c. The investor should not disclose its share of the associate's reserves.

<u>Basic Issue 14.10 – Minority interest in reserves of a subsidiary</u>

If an enterprise's reserves include reserves of a subsidiary with a significant minority interest, how should the minority interest in the reserves be presented?

a. Disclosed separately as a deduction from enterprise reserves.

b. Excluded from the quantities and values reported for the enterprise's reserves.

<u>Basic Issue 14.11 – Valuation method for the purpose of supplemental disclosure</u>

If the values of reserves are to be disclosed, which valuation method should be used?

a. Fair value (the amount for which the reserves and related assets could be exchanged between knowledgeable, willing parties in an arm's length transaction).

b. Net selling price (fair value, less the costs of disposal).

c. Expected exit value in the due course of business (undiscounted estimated future cash flows expected to arise from the producing the minerals and from disposing of the mineral property at the end of its useful life).

d. Value in use (discounted estimated future cash flows expected to arise from the producing the minerals and from disposing of the mineral property at the end of its useful life).

e. A "standardised measure" applying a single set of assumptions, including a standardised discount rate, to all enterprises (which is not a true "value" measure).

f. Current replacement cost.

g. Other (please explain).

<u>Basic Issue 14.12 – Which categories of reserves for value disclosures</u>

If reserve values are to be disclosed in the notes, on which categories of reserves should the note disclosures be based?

a. Proved developed only.

b. Proved developed and undeveloped only.

c. Proved and probable only.

d. Proved, probable, and possible.

<u>Basic Issue 14.13 – Assumptions about prices and costs in making reserve value estimates</u>

What assumptions should be made about price and cost factors in making reserve value estimates for disclosure purposes?

a. Use cost and price factors as of the date of estimation.

b. Use cost and price factors for a period of weeks or months prior to the date of estimation.

c. Use cost and price factors expected to exist at the time of production.

d. Use current costs and prices adjusted for forecasted general price level changes to the date of expected production.

e. Use cost and price factors contained in the enterprise's budget, with extrapolation from the budget for future periods not included in the internal budget.

f. Other (please explain).

<u>Basic Issue 14.14 – Discount rate for estimating reserve values for disclosure purposes</u>

What discount rate should be used in making reserve value estimates for disclosure purposes?

a. The rate on risk-free investments.
b. Risk-adjusted rate.
c. Weighted average long-term borrowing rate of the enterprise.
d. The enterprise's incremental long-term borrowing rate.
e. The enterprise's weighted average cost of capital.
f. The enterprise's "hurdle rate" for similar assets.
g. A standard rate prescribed for all enterprises in the extractive industries.
h. Other (please describe).

<u>Sub-issue 14.14.1 – Pre-tax or after-tax discount rate</u>

Should the discount rate used in estimating reserve values for disclosure purposes be a pre-income-tax rate or an after-income-tax rate?

a. Pre-tax rate.
b. After-tax rate.

<u>Basic Issue 14.15 – Standardised measure of future cash flows: requirement</u>

Should a "standardised measure of future net cash flows" be required either in the notes to the financial statements or as a separate schedule?

a. A standardised measure should not be required.
b. A standardised measure should be required in the notes to the financial statements.
c. A standardised measure should be required as a separate schedule outside the financial statements.

<u>Sub-issue 14.15.1 – Standardised measure of future cash flows: measurement</u>

If a "standardised measure of future net cash flows" were to be required, which of the following requirements should be imposed? If you disagree with any of the possible requirements, please explain why.

a. All cost and price factors should be based on prices at the date of the financial statements, adjusted for any contractual price changes.
b. Future income taxes should be included in the calculations.
c. The discount rate should be set as a uniform set rate throughout the world and not changed from one period to another or one enterprise to another.
d. Other (please explain).

<u>Basic Issue 14.16 – Analysis of changes in estimated reserve values</u>

If disclosures of the values of reserves are required, should an analysis of changes in estimated reserve values between the beginning and the end of the year be presented?

a. Yes.
b. No.

<u>Sub-issue 14.16.1 – Items included in analysis of changes in estimated reserve values</u>

If an analysis of changes in estimated reserve values is presented, are the following line items appropriate?

1. **Revisions of quantity estimates made in the prior year.**
2. **Discoveries, extensions, and improved recovery of commercial reserves during the year.**
3. **Purchases of reserves in place.**
4. **Sales of reserves in place**
5. **Changes in price assumptions from beginning of year to end of year.**
6. **Changes in estimated future production and development costs.**
7. **Sales and intra-enterprise transfers of production during the year.**
8. **Accretion of the discount.**
9. **Change in discount rate used.**
10. **Development costs incurred during the period.**
11. **Net changes in income taxes (if after-tax value is computed).**
12. **Other changes (please describe).**

a. Yes.
b. No (please explain).

<u>Basic Issue 14.17 – Disclosure of reserve values by geographical area</u>

If an enterprise is required to disclose estimated reserve values or a standardised measure of net cash flows, should the disclosure be on an enterprise-wide basis or subdivided geographically or geologically?

a. Enterprise-wide.
b. Home country plus other significant countries individually.
b. Geographical groupings that reflect differences in risk.
c. Geological groupings.
d. Individually significant mines or fields, and in total for other reserves.
e. Other.

<u>Basic Issue 14.18 – Disclosure of information useful in computing reserve values</u>

If reserve values themselves are not disclosed, should the financial statements include information useful in computing reserve values and, if so, what information?

a. Yes (please elaborate).
b. No.

<u>Basic Issue 14.19 – Disclosure of assumptions</u>

If an enterprise is required to disclose estimated reserve values or a standardised measure of net cash flows, should disclosure of the principal underlying assumptions be required (particularly assumed prices, costs, discount rate, timing of production, and technological factors)?

a. Yes (please elaborate).
b. No (please explain).

<u>Basic Issue 15.1 – Disclosure of costs incurred and costs capitalised</u>

Which of the following should be disclosed (please indicate all that you think should be required)?

a. Costs incurred during the period to find and develop reserves.

b. Costs incurred during the period to produce reserves.

c. Costs capitalised as assets and costs deferred pending further information at the end of the period arising from preproduction activities.

<u>Basic Issue 15.2 – Value of properties held for exploration</u>

Should the value of mineral properties held for exploration be disclosed?

a. Yes.

b. No.

<u>Basic Issue 15.3 – Performance indicators</u>

Which, if any, of the following should be disclosed (please indicate all that you think should be required)?

a. Finding cost per unit of reserves discovered.

b. Total production costs per unit.

c. Cash production costs per unit.

d. Cash royalty payments.

e. Cash lifting costs.

f. Cash transportation costs.

g. Other performance indicators (please describe).

h. Disclosure of performance indicators should not be required.

<u>Basic Issue 15.4 – Financial disclosures</u>

Which of the following financial disclosures should be required (please indicate all that you think should be required)?

a. Segregate sales revenue and tariff income.

b. Average selling price realised per unit for each mineral in each area.

c. Estimated selling prices per unit for each mineral in each area at the end of financial reporting period.

d. Information about the sensitivity of reserve quantities, reserve values, and earnings to price changes.

e. Treatment of overhead costs (explanation of capitalisation policy and amounts capitalised).

f. Capital spending plans, including disclosure of expected development costs in one or more future periods.

g Profits on disposal of properties.

h. Details of hedging exposures.

i. Operating costs by category, showing separately such items as:
   - (i) raw materials and consumables;
   - (ii) depreciation and amortisation;
   - (iii) employment costs;
   - (iv) royalties and other mining taxes;
   - (v) decrease/increase in inventories;
   - (vi) other external costs;
   - (vii) provisions;
   - (viii) exploration and evaluation;
   - (ix) research and development; and
   - (x) net foreign exchange gains/losses on monetary items.

j. Analysis of change in earnings from one period to the next, showing separately the change in earnings caused by (i) changes in prices of minerals, (ii) changes in exchange rates, (iii) changes in volume of minerals sales, and (iv) cash cost savings.

k. Other (please describe).

<u>Basic Issue 15.5 – Nonfinancial disclosures</u>

Which of the following nonfinancial disclosures should be required (please indicate all that you think should be required)?

a. Production quantities of each mineral in each area, such as rock mined, ore milled, and metals per tonne of ore.

b. Sales quantities of each mineral in each area.

c. Contracts for sales of minerals yet to be produced.

d. Reserve replacement ratio.

e. Reserve-to-production ratio.

f. Extent of management discretion about the timing of exploration activity (if exploration costs are charged to expense).

g. Other (please describe).

<u>Basic Issue 15.6 – Special disclosures for individual mines: mining enterprises</u>

Which of the following should be disclosed by mining enterprises with respect to each significant individual mine (please indicate all that you think should be required)?

a. The enterprise's interest.
b. Type of reserve: underground, open-cut stockpile, residues.
c. Average grade of ore mined during the period.
d. Amount of overburden and waste removed during the period.
e. Quantities of resources (as distinct from reserves).
f. Other (please describe).

<u>Basic Issue 15.7 – Special disclosures: petroleum enterprises</u>

Which of the following should be disclosed by petroleum enterprises (please indicate all that you think should be required)?

a. Gross number of producing wells.
b. Net number of producing wells.
c. Gross and net exploratory wells (perhaps divided between dry holes and those finding reserves).
d. Gross and net development wells (perhaps divided between dry holes and those finding reserves).
e. Number of exploratory wells in progress at period end.
f. Number of development wells in progress at period end.
g. Number of units of each major product transferred to other segments of the enterprise.
h. Number of units of each major product sold to outside customers.
i. Average transfer price of each major product transferred to other segments of the producing enterprise.
j. Other (please describe).

<u>Basic Issue 15.8 – Balance sheet cost classification – capitalised preproduction costs</u>

How should capitalised preproduction costs that meet the definition and recognition criteria for assets be classified in the balance sheet?

a. As property, plant, and equipment.
b. As an intangible asset.
c. Costs directly attributable to facilities and equipment classified as property, plant, and equipment; all other costs classified as an intangible asset.
d. Other (please explain).

<u>Basic Issue 15.9 – Balance sheet cost classification – deferred costs</u>

If preproduction costs are deferred as assets pending determination of whether commercially recoverable reserves have been found, how should they be classified in the balance sheet?

a. As a separately described asset, not commingled with other asset categories.
b. As property, plant, and equipment.
c. As an intangible asset.
d. Costs directly attributable to facilities and equipment classified as property, plant, and equipment; all other costs classified as an intangible asset.
e. Other (please explain).

Basic Issue 15.10 – Environmental disclosures

Which environmental and social disclosures should be required (please indicate all that you think should be required)? Note that these might be required by an International Accounting Standard if not disclosed elsewhere in the financial report (see IAS 1.102).

a. Compliance with environmental and social legislation.
b. Levels of pollutant emissions.
c. Qualitative social indicators (please provide examples).
d. Quantitative ecoefficiency metrics such as energy consumption, waste reduction, recycling, marketing of by-products, and materials use.
e. Strategies for conservation. for development of environmentally superior products, and for meeting future global energy needs.
f. Investment in zero-emissions fuels and renewable forms of energy.
g. Quantitative data about employee health.
h. Environmental protection policies.
i. Employment policies.
j. Social policies.
k. Other (please describe).

Basic Issue 15.11 – Segment information for upstream activities

Should an integrated enterprise in the extractive industries be required to report segment information for its upstream activities separately from downstream activities?

a. Yes.
b. No.

Sub-issue 15.11.1 – Pricing of downstream transfers by integrated enterprises

IAS 14, Segment Reporting, requires that intersegment transfers be priced at market price. Some petroleum and mining companies conduct both upstream and downstream activities. For them, some segment revenue arises from intersegment transactions. In those cases, how should the value of the intersegment transfer be measured?

a. Current market prices for the minerals (sometimes known as posted field prices) less estimated costs that would have been incurred had those minerals been sold to an outside customer.
b. Current market prices for the minerals (sometimes known as posted field prices) without deduction for estimated costs.
c. Other (explain).