

CMAC meeting, 21 March 2019
Agenda Paper 2

Extractive Activities

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- Purpose of the Session
- Questions for CMAC members
- Background
- Next steps
- Appendix: Feedback from National Standard-setters

Purpose of the Session

- Staff are performing outreach with users to help the Board understand the problems users face when using financial statements of entities with extractive activities
- The feedback will help the Board define the scope of its research project by identifying the problems that need to be remedied
- The purpose of the session is to:
 - provide an update on the current status of the project
 - provide a brief reminder of the 2010 Discussion Paper
 - give CMAC members an opportunity to explain the problems they face in analysing entities with extractive activities



Questions for CMAC members

1. What information do users of financial statements lack today for making informed decisions about an entity undertaking extractive activities? Why would that information be useful?
2. Do you adjust the information in financial statements about extractive activities, for example to eliminate differences in accounting policies? If so, what adjustments do you make and why?
3. What are the most relevant sources of information about extractive activities (financial statements, management commentary, the entity's website, etc)? Is that information always consistently available?

Background

- The sector has an estimated market capitalisation of around €4t on 28 exchanges (represents only those exchanges which allow IFRS application)¹
- Natural resources² play a dominant **social, economic and political** role in **81 countries**, accounting for a **quarter of global GDP** and half the world's population

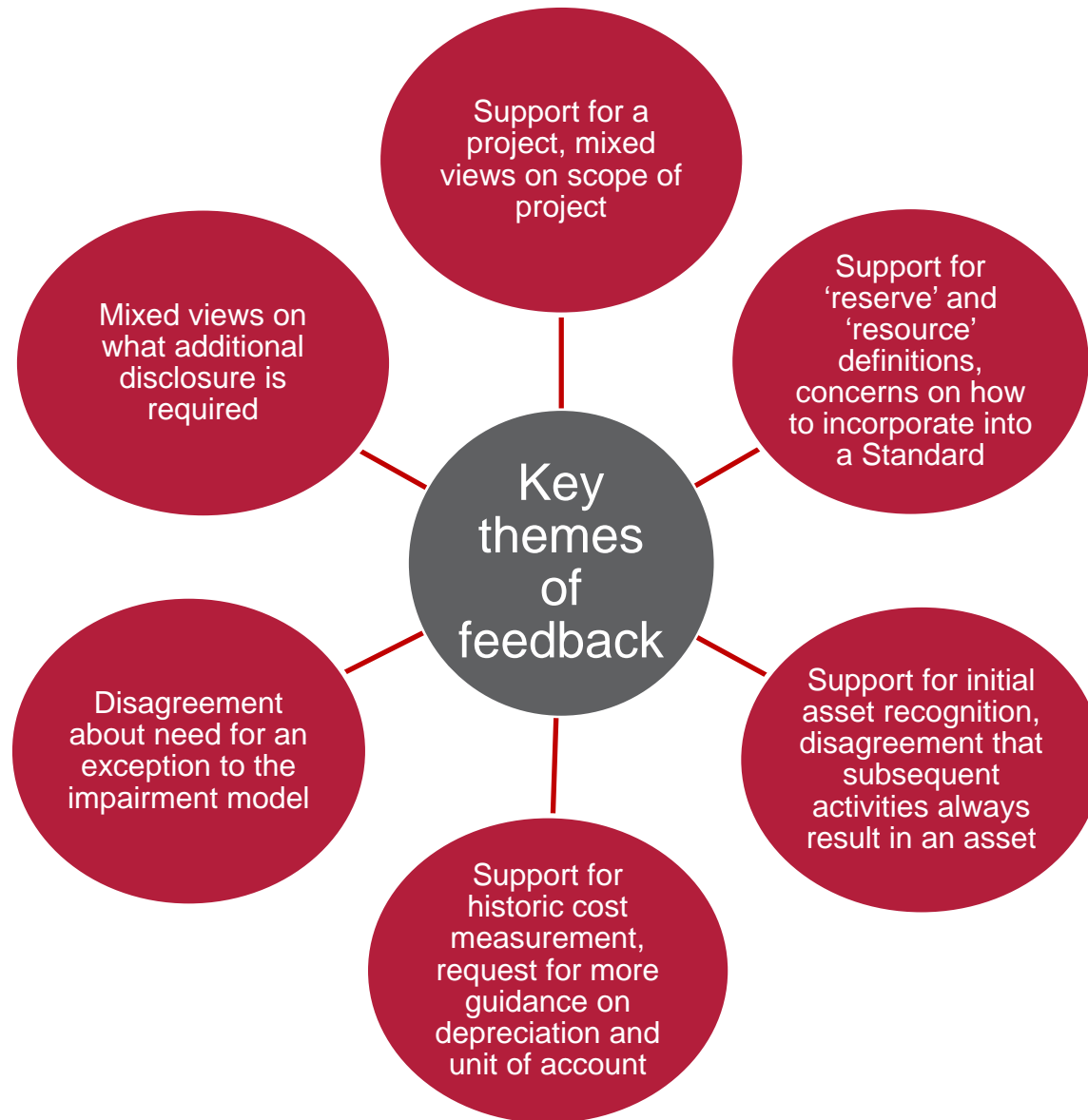
¹see: <http://data.revenuewatch.org/listings/>

²see: <http://www.worldbank.org/en/topic/extractiveindustries>

Project background

- Project added to Board's active Research Programme in 2018
- The Board is gathering evidence to help decide whether to start a project to develop proposals to replace or amend IFRS 6 *Exploration for and Evaluation of Mineral Resources*
 - The Board is considering feedback from the 2010 *Extractive Activities* Discussion Paper as part of that evidence
- IFRS 6 allows diversity in the recognition and measurement of transactions, other events or conditions
 - The resulting financial information can vary, which may affect primary users' understanding of the financial statements

- IFRS 6 allows diversity in the recognition and measurement of exploration and evaluation (E&E) transactions, other events or conditions. Consequently, accounting policies applied can vary from entity to entity which can impact, for example, key ratios
- The following are some examples of E&E accounting policies in practice:
 1. Expense all E&E expenditure, including acquisition costs, until the technical feasibility and commercial viability of extracting the resources has been determined
 2. Expense all E&E expenditure, except for acquisition costs which are capitalised, until the technical feasibility and commercial viability of extracting the resources has been determined
 3. Expense only pre-licence expenditure and capitalise all other E&E expenditure which are carried forward as assets where such costs are:
 - expected to be recouped through successful exploration and development of the area; or
 - E&E activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves
 4. Capitalised E&E costs under 3 are accumulated in separate geological areas (area of interest), cost pools not normally smaller in size than a country (full cost) or on a well by well basis (successful efforts)





Next steps

- Staff are performing additional research and analysis to determine the effect, if any, of changes to extractive activities on the Discussion Paper
- Board education/discussions to continue Q2 2019
- Board plans to discuss the scope of the project thereafter
- For further information, visit the project page:
 - <https://www.ifrs.org/projects/work-plan/extractive-activities/>



Appendix – Feedback from National Standard- setters

- In 2018 the Board asked those National Standard-setters that developed the 2010 Discussion Paper to provide an update of any significant changes in extractive activities since 2010 that could affect the content and project proposals of the Discussion Paper

Key areas of change since 2010

- The **risk profile** of entities, and the industry in which they operate, has changed
- **New, and more complex, transactions** for which recognition, measurement and disclosure requirements of existing Standards are not clear
- Each jurisdiction applies their own **reserves and resource classification system** and these systems have undergone minor amendments since 2010
- Some jurisdictions have implemented their own requirements for the **reporting of non-IFRS information** outside the financial statements such as payments to governments

- The **risk profile** of entities operating within the extractives industry has become more complex as they are subject to greater risk
- Respondents provided the following examples:
 - i. increasing use of unconventional extractive activities (eg Coal, Seam and Gas (CSG) mining, fracking, etc)
 - ii. increase in the use of new and more complex transactions (eg alternative financing arrangements, farm-out arrangements, etc)
 - iii. increase in price volatility of minerals and oil and gas
 - iv. increased politicisation of the industry

- Extractives entities are increasingly using **new and more complex transactions** whereby accounting requirements are not clear
- Respondents provided the following examples:
 - i. complex joint arrangements
 - ii. determining a unit of account when accounting for a sale of a working interest
 - iii. farm-out arrangements
 - iv. recognition and measurement of property which has not been previously explored

- There is a legal requirement in place to use a specific **reserve and resource classification system** within each jurisdiction. Respondents noted minor updates to the relevant definitions of reserves and resources. For example:
 - i. Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards on *Mineral Resources and Mineral Reserves* have been aligned with the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) definitions
 - ii. Australia's Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) was revised to improve the quality of reporting
 - iii. Small changes in the Petroleum Resource Management System (PRMS) were noted

- Additional jurisdictional **reporting of non-IFRS information**, outside the financial statements, have been implemented in relation to payments to governments. For example:
 - i. the European Union requires those entities operating within the extractives industry to disclose ‘payments to governments’ for extractive activities
 - ii. In Canada, the *Extractive Sector Transparency Measures Act* (ESTMA) was introduced and establishes reporting and transparency obligations for the extractives sector

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