

STAFF PAPER

September 2021

IASB Meeting

Project	Extractive Activities		
Paper topic	Cover paper		
CONTACT(S)	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6410
	Tim Craig	tcraig@ifrs.org	+44 (0) 20 7246 6410

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Objective

1. The objective of this meeting is to present staff analysis and recommendations about the scope of the Board's research project on Extractive Activities.

Structure of the paper

2. This paper explains the:
 - (a) background to the Board's research project (paragraphs 4–13); and
 - (b) structure of the papers for this meeting (paragraph 14).
3. This paper includes two appendices:
 - (a) Appendix A—Extracts from the Basis for Conclusions on IFRS 6 *Exploration for and Evaluation of Mineral Resources*; and
 - (b) Appendix B—Summary of targeted investor outreach.

Background

4. The Board issued IFRS 6 in 2004. IFRS 6 allows entities engaged in extractive activities to continue to apply some aspects of their existing accounting policies for

exploration and evaluation (E&E) expenditure until the Board is able to complete a comprehensive review of the accounting for extractive activities (Appendix A). This has led to diversity in the accounting for E&E expenditure.

5. In April 2010 the Board published 2010 *Extractive Activities* Discussion Paper (Discussion Paper) which proposed to address financial reporting issues associated with exploring for and finding minerals, oil and natural gas deposits, developing and extracting those deposits. The Board received 141 comment letters from a wide range of stakeholders. The comment letter analysis was presented to the Board in October 2010 (see [October 2010 Agenda Paper 7A](#)).
6. Following feedback from the 2015 Agenda Consultation, the Board decided to add a new research project on extractive activities to the research pipeline. This research project was activated in 2018 with the aim of gathering evidence to help decide whether to start a project to develop proposals that would amend or replace IFRS 6.

Research and outreach performed¹

7. In 2018, we requested feedback from the national standard-setters whose staff contributed to the development of the Discussion Paper (being Australia, Canada, Norway and South Africa). Those national standard-setters were asked to provide an update since the publication of the Discussion Paper to identify whether the proposals in the Discussion Paper and feedback to those proposals were still relevant. Additionally, we also asked:
 - (a) how changes (if any) to their extractive industries might affect the research findings of the Discussion Paper; and
 - (b) if, as a result of these changes, they recommend the Board consider performing additional research.
8. This feedback was presented to the Board at its March 2019 meeting (see [March 2019 Agenda Paper 19](#)).

¹ Although paragraphs 7–11 summarise the history of the research and outreach performed, and the meetings at which the findings were presented, relevant excerpts from those papers have been included in the respective papers for this meeting.

9. At its September 2019 meeting, the Board discussed the potential effects, if any, on the analysis and proposals in the Discussion Paper in the light of (see [September 2019 Agenda Papers 19-19F](#)):
 - (a) Standards, amendments and other documents issued since the publication of the Discussion Paper; and
 - (b) changes to reserve and resource classification systems and other initiatives, such as ‘publish what you pay’ and sustainability reporting.

10. At that meeting the Board asked staff to research and perform outreach with other jurisdictions to determine:
 - (a) what problems, if any, entities with extractive activities have applying IFRS Standards; and
 - (b) whether the primary users of financial statements (users) get the information they need.

11. We presented the findings from our research and outreach at the following meetings:
 - (a) feedback about extractive industries from other jurisdictions and stakeholder groups (see [June 2020 Agenda Paper 19A](#));
 - (b) accounting for E&E expenditure applying IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (see [July 2020 Agenda Paper 19A](#));
 - (c) an academic literature review on accounting for E&E expenditure and reserve and resource disclosures (see [July 2020 Agenda Paper 19B](#));
 - (d) reserve and resource reporting requirements of jurisdictions with significant extractive industries (see [September 2020 Agenda Paper 19A](#));
 - (e) diversity of accounting policies applied to E&E expenditure (see [October 2020 Agenda Paper 19A](#)); and
 - (f) an explanation of extractive activities in the minerals and oil and gas industries, together with common accounting challenges, and the drivers of those challenges (see [February 2021 Agenda Paper 19A](#)).

Targeted investor outreach

12. We engaged in targeted outreach with investors. In particular, we:
 - (a) sent a survey to a range of investors—this survey focused on two primary topics being (i) the usefulness of information about E&E expenditure; and (ii) the usefulness and public availability of reserve and resource information.
 - (b) held a series of one-to-one meetings with a range of investors that completed the survey—these meetings allowed us to obtain a better understanding of survey responses and the issues users face.
13. Appendix B provides a detailed summary of that feedback.

Structure of papers

14. The staff analysis and recommendations have been structured as follows:
 - (a) Agenda Paper 19A *Project scope and objectives: an overview*—the proposed scope of the project;
 - (b) Agenda Paper 19B *Assessment factors*—the five assessment factors applied to analyse each of the matters identified through outreach and research;
 - (c) Agenda Paper 19C *Matters in the scope of IFRS 6*—an analysis of matters in the scope of IFRS 6;
 - (d) Agenda Paper 19D *Matters outside the scope of IFRS 6*—an analysis of matters outside the scope of IFRS 6; and
 - (e) Agenda Paper 19E *Reserve and resource information*—an analysis of matters related to reserve and resource information.

Appendix A—Extract from the Basis for Conclusions on IFRS 6

...

Reasons for issuing the IFRS

- BC2 Paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* specify a hierarchy of criteria that an entity should use in developing an accounting policy if no IFRS applies specifically to an item. Without the exemption in IFRS 6, an entity adopting IFRSs in 2005 would have needed to assess whether its accounting policies for the exploration for and evaluation of mineral resources complied with those requirements. In the absence of guidance, there might have been uncertainty about what would be acceptable. Establishing what would be acceptable could have been costly and some entities might have made major changes in 2005 followed by further significant changes once the Board completes its comprehensive review of accounting for extractive activities.
- BC3 To avoid unnecessary disruption for both users and preparers at this time, the Board proposed to limit the need for entities to change their existing accounting policies for exploration and evaluation assets. The Board did this by:
- (a) creating a temporary exemption from parts of the hierarchy in IAS 8 that specify the criteria an entity uses in developing an accounting policy if no IFRS applies specifically.
 - (b) limiting the impact of that exemption from the hierarchy by identifying expenditures to be included in and excluded from exploration and evaluation assets and requiring all exploration and evaluation assets to be assessed for impairment.
- BC4 The Board published its proposals in January 2004. ED 6 *Exploration for and Evaluation of Mineral Resources* had a comment deadline of 16 April 2004. The Board received 55 comment letters.
- BC5 In April 2004 the Board approved a research project to be undertaken by staff from the national standard-setters in Australia, Canada, Norway and South Africa that will address accounting for extractive activities generally. The research project team is assisted by an advisory panel, which includes members from industry (oil and gas and mining sectors), accounting firms, users and securities regulators from around the world.

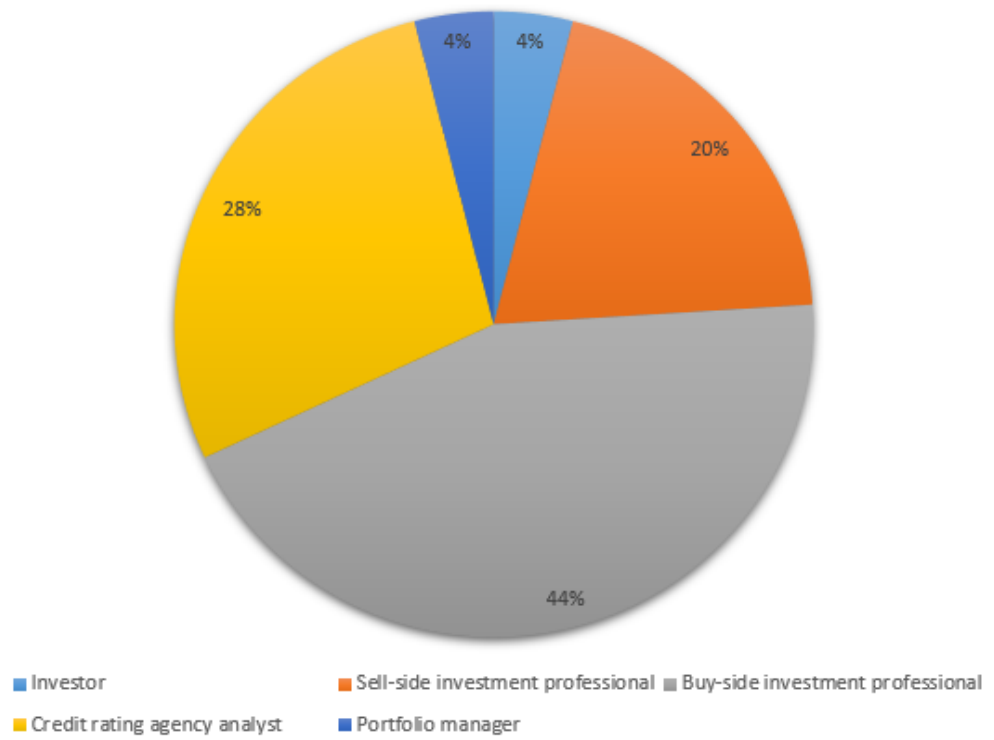
...

Appendix B—Summary of targeted investor outreach

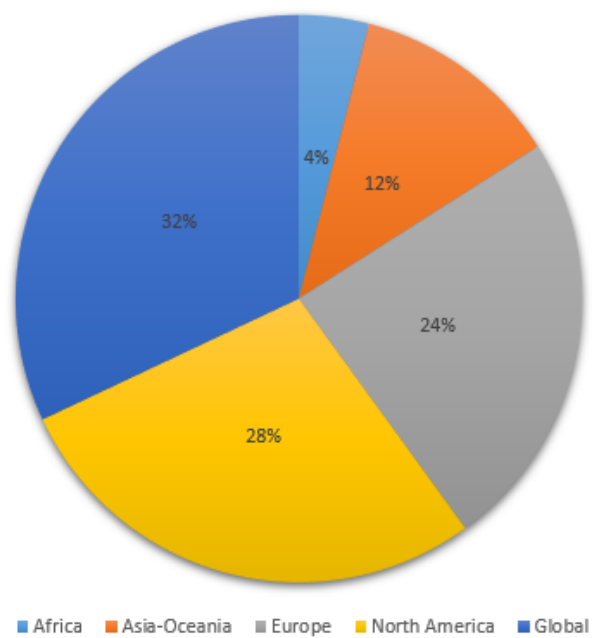
Background

- B1. In September 2019 the Board asked us to research, and perform outreach with other jurisdictions to help determine whether users are obtaining the information they need.
- B2. In reviewing feedback from that outreach, the Board observed it did not include many responses from users. Consequently, the Board asked that us to perform targeted outreach with investors.
- B3. In response to this request, outreach with investors was performed in two stages:
- (a) undertaking a survey with a range of investors. In particular, this survey asked investors about:
 - (i) Accounting policy diversity—E&E expenditure in the scope of IFRS 6 (see paragraphs B5-B13)
 - 1. how important information about an entity’s E&E expenditure is;
 - 2. how problematic any diversity in accounting for E&E expenditure is;
 - 3. how to tackle any diversity in accounting for E&E expenditure;
 - (ii) Reserve and resource (R&R) information (see paragraphs B14-B20)
 - 1. how important R&R information is;
 - 2. how they use such information;
 - 3. whether they are concerned with the comparability of R&R information (that is, if they were concerned about different jurisdictions requiring entities to apply different R&R classification systems); and
 - 4. whether R&R information was publicly available for all extractive entities they followed.
 - (b) one-to-one interviews with four respondents to the survey. These interviews were to help us better understand the survey responses and were held with a mix of buy-side, sell-side and credit rating agency analysts. It is important to note that those investors that provided additional feedback on their survey answers focused predominantly on larger entities (that is, entities engaged in all extractive activities) rather than smaller entities that only engaged in E&E activities.
- B4. We received 25 responses from a range of investors that cover entities in mining, oil and gas, or both. There were mixed responses across the types of respondents and geographical regions—we have highlighted any trends when identified.

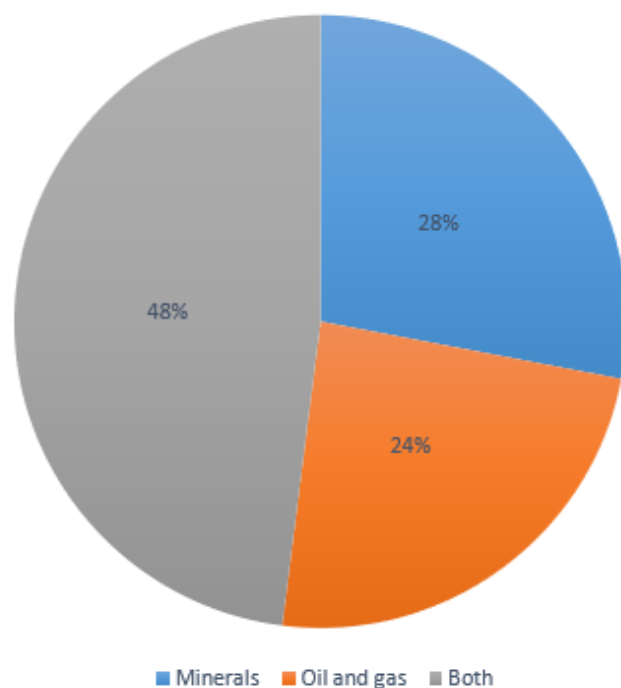
Investor type



Geographical region the analyst represented



Industry the analyst covered



Diversity of accounting policies developed applying IFRS 6

Survey responses

B5. The following tables detail the survey questions about E&E expenditure information disclosed in the financial statements, and the responses to those questions:

Question 1—Information reported by entities in their financial statements about the expenditure spent on E&E activities is:	
Very important, it is a critical part of my analysis	16
Somewhat important, it provides some useful information for my analysis	9
Not important, I don't use this information in my analysis	-
Total responses	25

Question 2—There is diversity in accounting for E&E expenditure in the financial statements. This diversity results in:	
Very significant problems, I find it difficult to compare entities in this industry	3
Some problems, I have to make adjustments when comparing entities	21
No problems, I can cope easily with the diversity	-
No problems, I do not use this information	1
Total responses	25

Question 3—The Board should tackle diversity in accounting for E&E expenditure by:	
Changing IFRS 6 so all entities would be required to apply the same accounting policy	9
Continuing to permit entities to apply different accounting policies, but changing the disclosure requirements in IFRS 6 to improve the information entities provide about those accounting policies	14
Doing nothing, I am happy with the current situation	1
This is not an important issue to me	1
Total responses	25

Summary of investor feedback

- B6. Many respondents said information about E&E expenditure is very important. They use that information as an input into their analysis.
- B7. In particular, interviewees said that information about an entity’s E&E expenditure is important for smaller entities undertaking mainly E&E activities. For these entities, E&E expenditure is likely to be material to the financial statements and E&E activities are often critical to their future.
- B8. However interviewees also said that, regardless of the size of the entity, information about an entity’s E&E expenditure is important to help users:
 - (a) compare entities in the same industry—for example, one investor said they had limited interest in the amount of E&E expenditure itself, however, they needed the information in order to adjust metrics and facilitate comparisons between entities applying US GAAP and those applying IFRS Standards.

- (b) identify trends over time—for example, whether an entity’s investment in E&E activities is sufficient to maintain their project pipeline and market position.
 - (c) assess management’s decisions and ability to allocate capital to exploration activities.
 - (d) to facilitate a conversation with management—for example, one investor said qualitative information about the E&E expenditure and the type of project it relates to was important, and the information in the financial statements helps them to have discussions with management about this.
 - (e) calculate specific metrics—for example, one investor said information about E&E expenditure helps estimate future depreciation and amortisation and any likely effect on earnings.
- B9. One interviewee said that sometimes qualitative information about an entity’s E&E expenditure can be more useful than the related quantitative information—for example, this interviewee said that in some cases looking at what E&E activities an entity is engaged in and how successful previous E&E campaigns have been, is more important than the numbers themselves.
- B10. One interviewee said that accounting policy information about E&E expenditure is also important because assessing the aggressiveness or otherwise of an entity’s accounting policy is helpful in assessing the corporate governance of the entity.
- B11. Despite many investors saying information about E&E expenditure is very important, most said the differences in accounting for E&E expenditure was only somewhat of a problem requiring them to have to adjust their analyses. Investors that provided additional feedback went on to explain that this was because:
- (a) as one investor explained, they looked at free cash flows and whether E&E expenditure was expensed or capitalised did not matter;
 - (b) although earnings was an important metric for one investor, and different accounting policies could affect that metric, the accounting policy differences had not had a significant effect on that investor’s recommendations due to the type of well diversified entities they followed; and
 - (c) metrics that can be affected by accounting policy differences are cross checked to cash flow metrics that are not affected.
- B12. Consistent with feedback from other stakeholders, there are mixed views about the potential scope of a project on extractive activities:
- (a) many respondents said the Board should not address accounting policy diversity directly and should instead focus on improving disclosures about E&E expenditure. For example, all interviewees identified that the quality of disclosures for E&E expenditure was inconsistent between entities in the same industry and between jurisdictions and this resulted in them needing to refer to information outside the financial statements or, for one interviewee, contacting an entity for more detailed information. In these respondents’ view, the comparability of financial statements could be improved if entities were required to provide better information about how they account for E&E expenditure. One interviewee said that although they are sympathetic to

arguments about reducing accounting policy diversity, for small entities in particular the qualitative information about E&E expenditure is more important.

- (b) many respondents said the Board should limit the accounting policy choices allowed applying IFRS 6. However, one interviewee acknowledged that such an approach would be a major undertaking for the Board and might not result in an outcome that would be widely supported by all investors. This interviewee said that the next best approach would be to improve disclosures about E&E expenditure.

B13. One interviewee said that how an entity accounts for its E&E expenditure does not materially affect them because, in their view, information about an entity’s R&R is more important than information about their E&E expenditure.

Reserve and resource information

Survey responses

B14. The following tables detail the survey questions about R&R information disclosed outside the financial statements, and the responses to those questions:

Question 1—The R&R information reported by entities applying R&R classification systems is:	
Very important, it is a critical part of my analysis	19
Somewhat important, it provides some useful information for my analysis	6
Not important, I don’t use this information in my analysis	-
Total responses	25

Question 2—When analysing entities’ financial results, the R&R information is important because:	
It helps an analyst with their forecasting and valuation model. It supplements the items reported in an entity’s financial statements	16
It helps an analyst understand the entity’s financial statements. It helps to explain the assets and liabilities, and the income and expenditure recognised	6
Of other reasons	3
Total responses	25

Question 3—The application of different R&R classification systems in different jurisdictions causes me:	
Very significant concern, I would want all R&R information to be provided applying the same classification system	10
Some concern, I will use the information and assume it is consistent with other classification systems, but it does somewhat concern me that it could be inconsistent	15
No concern, as long as information is provided about R&R I do not mind which classification system is used	-
No concern, I do not use this information	-
Total responses	25

Question 4—I am able to get sufficient relevant R&R information to perform analysis for	
All entities I follow	5
The majority of entities I follow	15
Some of the entities I follow	5
None of the entities I follow	-
Total responses	25

Summary of investor feedback

- B15. All respondents to the survey said R&R information is important, with most saying it is critical for their analyses:
- (a) many said that they need R&R information for forecasting and valuation modelling and analyses. These respondents also said R&R information is a useful supplement to the financial statements.
 - (b) some said that they need R&R information to help them understand specific items in the financial statements—for example, it helps to explain the assets and liabilities, and the income and expenditure that are recognised.
- B16. Interviewees said that R&R information is important to them because:
- (a) it provides important context to help investors better understand the financial statements of entities with extractive activities—for example, understanding what an entity has done historically is an important aspect of forecasting;

- (b) understanding an entity’s R&R, and how an entity plans to extract those R&R, is critical for forecasting; and
 - (c) it provides an understanding of whether the entity can sustain itself and for how long—for example, R&R information allowed them to determine how long cash flows would be sustained for and the profile of the decline in R&R. One interviewee also said that reserve life (that is, how long a reserve will last) is a critical factor in their analysis.
- B17. All respondents expressed at least some concern that the comparability of R&R information could be affected by potential differences in the R&R classification systems specified for use by different jurisdictions. However, one interviewee said comparability would likely be an issue only if an investor were applying a ‘blanket’ multiple across all entities in an industry which, in their view, would be unusual. The same interviewee said it would be unlikely investors would be able to identify differences between entities using different classification systems if there were any.
- B18. Most respondents to the survey indicated that they were able to access sufficient and relevant R&R information for the majority of the entities that they follow (that is, that the R&R information they need is available publicly). However, interviewees also said that despite this:
- (a) the quantity and quality of that information disclosed differed between entities in the same industry and between jurisdictions—for example, entities that report in jurisdictions with strong regulatory requirements provide better quality information on a more timely basis, than other entities. In their view, this results in a lack of consistency between entities about what is disclosed and the granularity of that disclosure outside financial statements.
 - (b) a few interviewees suggested the quality of R&R information differed depending on the size of the entity—for example, smaller entities (such as those engaged only in E&E or only in development activities) generally meet only the minimum disclosure requirements whereas larger entities more regularly provide additional voluntary disclosures.
 - (c) one interviewee said they sometimes had to contact an entity directly to gain a better understanding of that information.
- B19. Almost all interviewees said that they would find it useful if entities with extractive activities were required to disclose specific R&R information in financial statements that is not currently required to be disclosed. For example:
- (a) information on volumes and cost of extracting R&R—that is, the cost to produce;
 - (b) R&R information by region depending on the materiality of the related mineral or oil or gas operation;
 - (c) R&R information by economic unit, which could be by mine or field depending on the size of the entity; and
 - (d) R&R quantities by grade.
- B20. A few respondents to the survey provided additional comments about the disclosure of R&R information in the financial statements:
- (a) two respondents said that the disclosure of price assumptions used in calculating R&R estimates would be useful.

- (b) one respondent said that a sensitivity analysis of R&R estimates would be useful.
- (c) one respondent said that their support of making the disclosure of R&R information more consistent was dependent on the approach the Board could take—for example, in their view, they would only support the Board developing disclosure requirements for R&R information in financial statements if those requirements resulted in the disclosure of useful information.
- (d) one respondent said that the disclosure of a reconciliation of R&R quantities would be useful.
- (e) one respondent said that it would be useful if R&R information was audited. This respondent also questioned whether it would be possible to require state-owned entities to disclose, or provide access to, their R&R information.

Other comments

- B21. One interviewee said, in their view, information about environmental, social and corporate governance related matters (that is, ESG information) is more important than information about E&E expenditure or R&R.