

STAFF PAPER

September 2021

IASB Meeting

Project	Extractive Activities		
Paper topic	Project scope and objectives: an overview		
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 paper is to present an overview of our analysis and recommendation about the scope and objectives of the Extractive Activities research project.

Overview

2. This paper is structured as follows:
 - (a) Summary of staff recommendation (paragraph 3);
 - (b) Background (paragraphs 4–16);
 - (c) Summary of feedback about project scope and objectives (paragraph 17);
 - (d) Approach to staff analysis (paragraphs 18–21); and
 - (e) Project scope and objectives (paragraphs 22–26).

Summary of staff recommendation

3. Based on the analysis and staff recommendations in *Agenda Papers 19C–19E* of this meeting, we recommend that:

- (a) the scope of the Extractive Activities project be to explore:
 - (i) developing requirements or guidance to improve the disclosure objectives and requirements in IFRS 6 *Exploration for and Evaluation of Mineral Resources* about an entity's exploration and evaluation (E&E) expenditure and activities; and
 - (ii) amending the Basis for Conclusions on IFRS 6 to remove its temporary status.
- (b) the objectives of such a project be to:
 - (i) provide more useful information about an entity's E&E expenditure and activities to primary users of financial statements (users); and
 - (ii) remove the temporary status of IFRS 6.

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 E&E expenditure until the Board is able to complete a comprehensive review of the accounting for extractive activities. The Board achieved this by providing entities with a temporary exemption from applying particular parts of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when developing their accounting policies. This has led to diversity in the accounting for E&E expenditure.
5. The Extractive Activities 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. The project has occurred in multiple stages since its commencement in 2018 as follows:
 - (a) Stage 1—review of 2010 *Extractive Activities* Discussion Paper;
 - (b) Stage 2—outreach and research activities; and
 - (c) Stage 3—targeted investor outreach.
6. The following paragraphs summarise key messages from these different stages.

Key messages from outreach and research

Diversity of accounting policies developed applying IFRS 6¹

7. Stakeholders, in particular national standard-setters, said the flexibility permitted by IFRS 6 has resulted in entities developing diverse accounting policies to account for E&E expenditure and this is one of the reasons for a lack of comparability between those entities' financial statements. Further outreach and research (including a review of academic evidence) confirmed the diversity in accounting for E&E expenditure.
8. Outreach with preparers indicated that many of them appreciate the ability to develop the most appropriate accounting policy because, in their view, it provides useful information and supports financial statement comparability by allowing entities to develop similar accounting policies as their peers. Although limited, there was academic evidence that supported this view. One academic study suggested that the ability for entities to develop the most appropriate accounting policy for E&E expenditure allows entities to provide more useful information². Our research also showed entities operating in the same industry developing similar accounting policies.
9. Outreach with users indicated they did not view the diversity in accounting for E&E expenditure as significant. In response to a survey we conducted with a range of investors, despite many respondents saying information about E&E expenditure is very important, most said the diversity in accounting for E&E expenditure was only somewhat of a problem requiring them to adjust their analyses. Although many respondents to the survey suggested requiring all entities to apply the same accounting policy, many others suggested improving disclosures about E&E expenditure instead. Outreach and research identified it was not always possible for users to determine how an entity accounts for E&E expenditure and information disclosed about an entity's E&E expenditure and activities could be improved.
10. There was also academic evidence that supported views that the diversity of accounting policies is not a significant matter for users, with one academic study

¹ See *Agenda Paper 19C* of this meeting.

² The academic study showed E&E expenditure was not value relevant (positively associated with share prices) when entities chose methods deviating from those commonly used by entities of the same size and in the same industry. In the authors' view, the ability to choose the most appropriate accounting policy for E&E expenditure allowed entities to provide useful information.

suggesting that E&E expenditure is value relevant regardless of whether it is expensed or capitalised.

Other matters relating to the application of IFRS Standards³

11. As part of our outreach, we asked stakeholders:
 - (a) if they are aware of application matters, outside the scope of IFRS 6, that are challenging for entities with extractive activities; and
 - (b) whether users get the necessary information from financial statements.

12. Many stakeholders, in particular preparers and national standard-setters, identified the following:
 - (a) matters relating to the application of IFRS Standards—for example, IFRS 11 *Joint Arrangements*, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;
 - (b) matters not specifically addressed by IFRS Standards—in particular, accounting for collaborative arrangements; and
 - (c) disclosures not specifically required by IFRS Standards.

13. Some preparers and national standard-setters did not expect standard-setting activity to address these matters. However, some other preparers and national standard-setters suggested developing requirements or guidance to address these matters. These stakeholders suggested addressing these matters either through the applicable Standards themselves or a separate standard addressing all extractive activities (that is, not just E&E activities currently in the scope of IFRS 6).

14. Although we did not specifically ask users about the matters identified that are outside the scope of IFRS 6, users did not identify these matters as something they had concerns about.

³ See *Agenda Paper 19D* of this meeting.

R&R information⁴

15. The Discussion Paper proposed requiring entities to disclose R&R information because of the importance of this information to users. The Discussion Paper also proposed using widely accepted definitions of ‘reserve’ and ‘resource’ in existing third-party R&R classification systems.
16. Outreach and research supported the view that R&R information is important to users. Some stakeholders observed differences in jurisdictional regulatory requirements for R&R reporting and in the R&R classification systems used. Consequently, many stakeholders suggested considering whether IFRS Standards should require disclosure of R&R information in financial statements. However, most respondents to the Discussion Paper were concerned about including third-party definitions in IFRS Standards. These respondents, and stakeholders from more recent outreach, questioned whether (a) the Board would effectively be able to do so, and (b) if doing so was within the Board’s expertise and remit. In addition, outreach and research indicated R&R information is generally disclosed outside financial statements (that is, regulators appear to treat this information as non-financial) and targeted outreach with investors indicated that for most users, R&R information they need is publicly available outside financial statements for the majority of entities they follow.

Summary of feedback about project scope and objectives

17. Many stakeholders provided their views on the project scope and objectives. Consistent with feedback on the Discussion Paper, we observed mixed views about the scope of this project. For example, stakeholders suggested:
 - (a) developing a disclosure-only standard for all extractive activities—for example, using the Board’s Targeted Standards-level Review of Disclosures project to develop a disclosure-only standard that scopes in all extractive activities, not only E&E activities (including R&R information);
 - (b) improving the recognition, measurement and disclosure requirements of IFRS 6 to improve consistency and comparability of financial statements;

⁴ See *Agenda Paper 19E* of this meeting.

- (c) withdrawing IFRS 6 and including extractive activities in a project that considers the accounting for intangible assets more generally;
- (d) developing guidance on how an entity with extractive activities can apply IFRS Standards;
- (e) developing an industry-specific standard which would scope in the accounting for all extractive activities, not only E&E activities; and
- (f) maintaining IFRS 6 and doing nothing further, that is, there are no significant application problems related to IFRS 6 which need fixing—for example, at the March 2021 Accounting Standards Advisory Forum meeting, many members said there were no indications a project on extractive activities should be a high priority.

Approach to staff analysis

18. We think each of the project scopes discussed in paragraph 17 would have different objectives (that is, these project scopes would seek to address different matters). For example:

- (a) limiting the project’s scope to E&E activities in the scope of IFRS 6 would seek to improve:
 - (i) the usefulness of information disclosed about E&E expenditure and activities (including accounting policy information);
 - (ii) the accounting for transactions, other events and conditions in the scope of, but not specifically addressed by, IFRS 6; and
 - (iii) financial statement comparability for transactions, other events or conditions in the scope of IFRS 6—for example, by reducing diversity in respect of accounting policies for E&E expenditure;
- (b) expanding the project’s scope to address activities outside the scope of IFRS 6 would seek to improve the accounting for all extractive activities (including E&E); and
- (c) expanding the project’s scope to address R&R information would seek to improve the usefulness of information disclosed about an entity’s R&R.

19. We think a project scope could include one or more objectives and need not align with the project scopes suggested by stakeholders. In particular, we think the project scope would depend on the Board’s objective (or objectives) of the project.
20. Consequently, we:
- (a) identified matters for further analysis based on evidence gathered—we reviewed all evidence (gathered through outreach, research, the Discussion Paper and feedback to that Discussion Paper) and identified matters highlighted by a few or more stakeholders.
 - (b) applied the following five assessment factors to all these matters:
 - (i) **Relevance**—that is, whether the matter affects all entities or only those with extractive activities;
 - (ii) **Scope of IFRS 6**—that is, whether the matter relates to E&E activities or to activities outside the scope of IFRS 6;
 - (iii) **Diversity**—that is, whether the matter gives rise to diversity in the accounting of similar transactions;
 - (iv) **Improvements**—that is, whether the matter is one for which the Board can significantly improve accounting (including disclosure); and
 - (v) **Effects on users**—that is, whether the matter identified has a material effect on users.
 - (c) based on the nature of the matters and the outcome of (b), we grouped the matters into three categories:
 - (i) matters relating to E&E expenditure and activities only—that is, matters in the scope of IFRS 6;
 - (ii) matters relating to development and production activities in the scope of other IFRS Standards; and
 - (iii) matters not specifically addressed by IFRS Standards (for example, R&R information).
21. Our analysis did not identify a common problem that would link all the matters in paragraph 20(c). Instead, these matters appear to be discrete and related to specific

aspects of accounting for E&E, development and production activities. Consequently, we grouped our analysis and recommendations into three papers:

- (a) matters relating to E&E expenditure and activities—that is, matters in the scope of IFRS 6 (see *Agenda Paper 19C* of this meeting);
- (b) matters primarily relating to development and production activities—that is, matters outside the scope of IFRS 6 (see *Agenda Paper 19D* of this meeting); and
- (c) R&R information (see *Agenda Paper 19E* of this meeting).

Project scope and objectives

22. Based on our analysis in *Agenda Papers 19C–19E* of this meeting, we concluded that the Board should:

- (a) not explore changing the recognition and measurement requirements for E&E expenditure. We do not have evidence at this stage to suggest that the benefits of doing so would outweigh the costs—although outreach and research observed that these requirements result in accounting policy diversity, there is no compelling evidence to indicate that this diversity:
 - (i) is a significant problem for users. For example, outreach indicated information about the amount of E&E expenditure and activities is more important than the accounting for E&E expenditure and users are able to manage the existing diversity.
 - (ii) can be addressed effectively. For example, some of the diversity could reflect differing facts and circumstances, and it may be difficult for the Board to develop requirements and guidance that reflect all facts and circumstances.
- (b) explore developing requirements or guidance to improve information disclosed about E&E expenditure and activities which could improve the usefulness and comparability of financial statements. Almost all users we conducted outreach with said information about E&E expenditure and activities is important and outreach indicated that information disclosed about an entity’s E&E expenditure and activities could be improved. Many

users said improving information disclosed about an entity’s E&E expenditure and activities would be more useful than revisiting the accounting for E&E expenditure.

- (c) not address matters that are outside the scope of IFRS 6 as part of a project on extractive activities. These matters could affect other entities applying IFRS Standards, not just those with extractive activities, and we have not identified compelling evidence suggesting a need to develop requirements or guidance on these matters specifically for entities with extractive activities. However, many of these matters have links to other projects on the Board’s active agenda and consequently, we have informed the respective project teams of any relevant feedback.
- (d) not develop requirements for the disclosure and use of R&R information in financial statements as part of a project on extractive activities. Although users find R&R information important, there are concerns whether (a) the Board could effectively incorporate requirements to disclose and use R&R information in IFRS Standards, and (b) if doing so is within the Board’s expertise and remit. R&R information is non-financial and outreach and research indicated that regulators have developed regulatory requirements about what and how R&R information is disclosed outside financial statements in jurisdictions with significant extractive industries. Most investors in our outreach said they get the R&R information they need for the majority of the entities they follow. We have therefore not identified compelling evidence to explore developing requirements for R&R information to be disclosed and used in financial statements.

23. Consequently, *Agenda Papers 19C–19E* of this meeting recommend that the Board:

- (a) commence a project to develop proposals that would seek to improve the quality of information disclosed about E&E expenditure and activities; and
- (b) not develop requirements for matters related to activities outside the scope of IFRS 6 as part of a project on extractive activities; and
- (c) not explore developing requirements for the disclosure and use of R&R information in financial statements.

24. Such an approach would allow the Board to make useful and timely improvements to IFRS 6 while allowing the feedback on those matters that are also relevant to entities in other industries to be considered in the relevant projects the Board has on its active agenda.

Staff recommendation

25. Based on our analysis, we recommend that:
- (a) the scope of the Extractive Activities project be to explore:
 - (i) developing requirements or guidance to improve the disclosure objectives and requirements in IFRS 6 about an entity’s E&E expenditure and activities; and
 - (ii) amending the Basis for Conclusions on IFRS 6 to remove its temporary status.
 - (b) the objectives of such a project be to:
 - (i) provide more useful information about an entity’s E&E expenditure and activities to users; and
 - (ii) remove the temporary status of IFRS 6.
26. If the Board agrees with our recommendation, we think the Board would need to conduct further research to understand what information users need, why they do not currently get that information, and the costs and benefits of requiring entities to provide that information.

Question for the Board

Does the Board agree with the overall project scope and objectives set out in paragraph 25?