IFRS Accounting

STAFF PAPER

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Project	**Extractive Activities**	
Paper topic	Suggestions for further research	
CONTACT(S)	Vikash Kalidas	vkalidas@ifrs.org
	Tim Craig	tcraig@ifrs.org

Objective

1. As Agenda Paper 19 explains, this paper sets out our analysis of the findings in Agenda Papers 19A and 19B and provides our thoughts on aspects of information about exploration and evaluation (E&E) expenditure and activities to research further in the next phase of the project.

Structure of this paper

2. This paper is set out as follows:
   (a) Background (paragraphs 3–5);
   (b) Suggestions for further research (paragraphs 6–61):
      (i) information to help understand the accounting for E&E expenditure (paragraphs 7–37);
      (ii) information to help compare entities with different accounting policies for E&E expenditure (paragraphs 38–45); and
      (iii) information to help understand the risks and uncertainties of E&E activities (paragraphs 46–61);
   (c) Next steps (paragraphs 62–65); and

(d) Appendix—Extracts from IAS 1 *Presentation of Financial Statements* related to accounting policy disclosures.

Background

3. As discussed in Agenda Paper 19, the International Accounting Standards Board (IASB) decided to explore developing requirements or guidance to improve the disclosures about an entity's E&E expenditure and activities to provide more useful information to primary users of financial statements (users).

4. IFRS 6 *Exploration for and Evaluation of Mineral Resources* contains the following disclosure requirements:

> **23 An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**
>
> 24 To comply with paragraph 23, an entity shall disclose:
>
> (a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
>
> (b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.
>
> 25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

5. This paper sets out our analysis of the findings in Agenda Papers 19A and 19B and provides our thoughts on aspects of information about E&E expenditure and activities to explore further in the next phase of the project. In developing these suggestions we considered:

   (a) suggestions made in prior research (Agenda Paper 19A);

(b) relevant academic research (Agenda Paper 19A);

(c) other requirements and proposals to provide information about E&E expenditure and activities (Agenda Paper 19A); and

(d) what entities disclose in their annual filings, including other information provided with financial statements (Agenda Paper 19B).

Suggestions for further research

6. Based on our research (see Agenda Papers 19A and 19B), we grouped our suggestions into three categories:

(a) information to help understand the accounting for E&E expenditure (paragraphs 7–37);

(b) information to help compare entities with different accounting policies for E&E expenditure (paragraphs 38–45); and

(c) information to help understand the risks and uncertainties of E&E activities (paragraphs 46–61).

Information to help understand the accounting for E&E expenditure

7. There is diversity in the accounting policies entities apply to E&E expenditure (see previous research included in October 2020 Agenda Paper 19A and July 2020 Agenda Paper 19B).

8. As explained in Agenda Paper 19, in September 2021 the IASB decided not to address the diversity in accounting policies. However, it decided to explore developing requirements or guidance to improve the disclosures about an entity's E&E expenditure and activities to provide more useful information to users. In making these decisions the IASB considered that transparency of information about E&E expenditure, in particular the accounting policies for E&E expenditure, was important because of the diversity and the significant judgements involved.

9. As Agenda Paper 19A explains, many stakeholders suggested improving disclosures about accounting policies. Academic research also supports this view. Our research of

accounting policy disclosures (see Agenda Paper 19B) also found examples in which these accounting policies were sometimes unclear.

10. In one academic researchers’ view (see paragraph 22 of Agenda Paper 19A) the lack of sufficient mandatory disclosure requirements in IFRS 6 leads to a lack of transparency which hinders comparability of extractive entities’ accounting practices.

11. One academic study referred to a long line of literature suggesting accounting flexibility is not misleading when transparent, but rather conveys an important signal about management’s (and the auditor’s) internal assessment of future economic benefits.[1]

12. As indicated in Agenda Paper 19A, users asked for better information about an entity’s accounting policies for E&E expenditure. On the other hand, we heard users find information about E&E activities more important than information about the accounting policy applied to E&E expenditure.

13. IAS 1 specifies disclosures required in respect of an entity’s accounting policies (see Appendix). Paragraph 24(a) of IFRS 6 requires an entity to disclose its accounting policies for E&E expenditure including the recognition of E&E assets (see paragraph 4).

14. Given the requirements in IFRS 6 and IAS 1 to disclose information about accounting policies, we considered whether the lack of clarity in accounting policies might be an application issue. Our findings suggest that while some of the problems identified might result from a lack of compliance with IFRS 6 (see for example paragraph 19 of Agenda Paper 19A), it is nonetheless worth exploring whether and how to develop requirements or guidance to help entities provide more transparency about the accounting policies applied to E&E expenditure.

15. Although IFRS 6 requires an entity to disclose its accounting policy for E&E expenditure, it includes no further requirements or application guidance specifying what information about those accounting policies entities should disclose. Our research shows that this could contribute to our findings on this matter.

[1] Ferguson, A., S.Kean and G.Pundrich (2020), ‘Factors Affecting the Value-Relevance of Capitalized Exploration and Evaluation Expenditures under IFRS 6’, *Journal of Accounting, Auditing and Finance* 1-24.

16. We also note that IFRS 6 does not specify the accounting for E&E expenditure and allows entities to continue applying diverse accounting policies to E&E expenditure. In a similar situation, IFRS 4 *Insurance Contracts* included guidance to help entities consider the type of information that should be disclosed as part of explaining the accounting policy used for insurance contracts (see paragraphs IG17 and IG18 of Guidance on Implementing IFRS 4). IFRS 6 does not have those equivalent paragraphs.

17. At this stage we have not considered how the IASB might improve the disclosure requirements or guidance—we need to speak to stakeholders about these suggestions first. If the IASB concludes it is necessary to improve the disclosure requirements or guidance in this respect, it could develop specific requirements. However, we think there could also be scope for encouraging entities to provide better information about their accounting policies for E&E expenditure without the need to develop detailed requirements. For example, the IASB could provide some illustrative examples of the type of information about an entity’s accounting policies for E&E expenditure that users may find useful, similar to the approach in IFRS 4.

18. Our research identified three features of accounting policies for E&E expenditure that are sometimes unclear and could be improved:

    (a) unit of account (paragraphs 19–27);

    (b) E&E expenditure (paragraphs 28–31); and

    (c) when capitalisation starts and stops (paragraphs 32–35).

Unit of account

19. Our research highlighted that the units of account entities use to accumulate E&E expenditure is one of the areas that contributes to the diversity of accounting policies entities apply to E&E expenditure. For example, entities might use an exploration well, a project or an ‘area of interest’ as their unit of account (see paragraphs 17–20 of Agenda Paper 19B for more details).

Information about the unit of account

20. In almost all annual filings we reviewed, entities disclosed the unit of account they used with area of interest being the most common. However:

(a) it was not always clear how similar or different the disclosed units of account (including area of interest) were; and

(b) of the entities that used an area of interest unit of account (required by AASB 6 *Exploration for and Evaluation of Mineral Resources* for Australian entities), only some disclosed how they defined area of interest (beyond the definition in AASB 6).[2]

21. A clear description of the unit of account could help users:

(a) better understand the size of the unit of account;

(b) compare accounting policies and units of account across different entities; and

(c) understand differences between E&E assets recognised by different entities that result from differences in the units of account used. For example different units of accounts could affect an entity's impairment assessments differently (see paragraphs 22–27).

Level at which E&E assets are assessed for impairment and comparison with unit of account

22. Entities are required to assess E&E assets for impairment. In developing IFRS 6, the IASB considered there was a need for consistency between the level at which the costs were accumulated (unit of account) and the level at which impairment was assessed (see paragraph BC40 of the Basis for Conclusions on IFRS 6). Paragraph 21 of IFRS 6 requires an entity to determine an accounting policy for allocating E&E assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

23. In our review of feedback, one regulator said it was unclear how the cash-generating unit used for impairment testing compared with the unit of account. A preparer also said users do not understand differences in units of account and whether expenditure related to failed exploration is carried forward as an asset (see Agenda Paper 19A).

[2] AASB 6 defines an area of interest as 'An individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or an oil or natural gas field, or has been proved to contain such a deposit or field'.

24. Our review of annual filings (see Agenda Paper 19B) highlighted examples in which the accounting policies for impairment testing of E&E assets were sometimes unclear. For example:

    (a) some entities disclosed no specific accounting policy for impairment testing of E&E assets.

    (b) many entities that did disclose an accounting policy for impairment testing of E&E assets disclosed that cash-generating units containing E&E assets were tested for impairment, but many of these entities did not explain what the cash-generating unit was.

    (c) entities applying a ‘successful efforts’ accounting policy explained that costs associated with exploration activity that does not discover potentially commercial hydrocarbons (‘unsuccessful exploration’) were written off. However, it was unclear how other entities accounted for unsuccessful exploration if, for example, exploration activity was still ongoing in the unit of account that included the unsuccessful exploration.

25. IAS 36 *Impairment of Assets* requires the nature of the individual asset or a description of the cash-generating unit to be disclosed only if an impairment loss was recognised or reversed during the period. Requiring this information for E&E assets in all situations would go beyond what is required for other non-financial assets. However, IAS 36 requires entities to disclose the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to each cash-generating unit (or group of units) regardless of whether there is an impairment loss.[3] In disclosing this it is likely some description of the cash-generating unit (or group of units) would be provided.

26. Because of the special requirements in IFRS 6 for testing E&E assets (see paragraph 22) and the nature of those assets, we think it could be helpful for users to understand the level at which an entity tests E&E assets for impairment and how that compares to the unit of account. This information could also help users compare the accounting

[3] Where the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives.

policies of different entities and better understand the scope for unsuccessful exploration costs to be carried forward.

27. For example, assume one entity uses an individual well as its unit of account and also tests its E&E assets for impairment at the level of that individual well while another entity uses a geographical area (that may contain several wells) as a unit of account and also tests its E&E asset for impairment at the level of that geographical area. In this situation, even in similar circumstances, the frequency of impairment losses recognised by the two entities could differ and comparability of success rates and financial performance between these two entities could be distorted unless these differences are understood.

E&E expenditure

28. Paragraph 9 of IFRS 6 requires an entity to determine an accounting policy specifying which expenditures are recognised as E&E assets, and provides examples of expenditures that entities might include in the initial measurement of E&E assets.

29. Our review of accounting policy disclosures in October 2020 (see Agenda Paper 19A) highlighted that the diversity in accounting policies arises partly from 'which' E&E expenditures entities recognise as E&E assets (capitalise). Our review of annual filings found examples in which it was unclear whether particular types of expenditure were capitalised and our review of academic research also identified this as a concern (see paragraph 21 of Agenda Paper 19A).

30. We also found many entities that capitalised E&E expenditure also expensed some E&E expenditure in the period in which they incur that expenditure. However, for many of these entities it was not always clear which E&E expenditures were expensed in the year incurred and why these costs were not capitalised.

31. Understanding which costs an entity capitalises could help users compare the financial statements of different entities and understand better the extent to which similar expenditure is accounted for differently.

When capitalisation starts and stops

Starting capitalisation

32. Almost all the accounting policy disclosures we reviewed included information about when entities start capitalising E&E expenditure or conditions under which they capitalised E&E expenditure (for example, capitalising expenditure once legal rights to explore have been obtained). Many of these entities disclosed further information about judgements made, or thresholds set, before capitalising E&E expenditure which, in our view, is useful.

33. It appears sufficient information is being provided about when entities start capitalisation to allow users to understand the judgements entities make and the differences in the accounting policies of different entities on this topic. One of the academic studies we reviewed (see paragraphs 24–25 of Agenda Paper 19A) found users are able to distinguish between E&E assets that reflect future economic benefits and E&E assets that simply reflect past expenditure. However, we intend to gather more evidence in the next phase.

Stopping capitalisation

34. As noted in Agenda Paper 19B, many entities disclosed when they stopped capitalising E&E expenditure and how they assessed whether commercial viability and technical feasibility had been demonstrated.[4] However, many other entities did not disclose how they assessed commercial viability and technical feasibility.

35. We do not know whether more information about how entities assess whether commercial viability and technical feasibility has been demonstrated would be useful. This is something we intend to explore in the next phase.

Summary

36. Based on our findings and analysis in this phase of the project, we plan to explore further whether and how entities should disclose better information about the different accounting policies entities apply to E&E expenditure specifically in relation to:

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[4] Appendix A of IFRS 6 defines 'exploration and evaluation expenditures' as expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

(a) unit of account;

(b) E&E expenditure; and

(c) when entities start and stop capitalising E&E expenditure.

37. There are a number of questions the IASB would need to answer in considering this suggestion. We will explore these questions in the outreach we plan to perform in the next phase of the project:

(a) whether this information would be useful especially because we have heard users find information about E&E activities more important than information about the accounting policy applied to E&E expenditure;

(b) why entities are not disclosing this information and how costly it would be for entities to disclose this information; and

(c) how entities could be encouraged to disclose this information.

Information to help compare entities with different accounting policies for E&E expenditure

38. There is diversity in the accounting policies entities apply to E&E expenditure.

39. One of the fundamental differences is whether an entity capitalises E&E expenditure as an E&E asset (a capitalisation policy) or whether an entity expenses its E&E expenditure in the period it incurs that expenditure (an expense policy). Consequently, the Statements of Financial Position and Statements of Comprehensive Income of entities applying these two broad types of accounting policy for E&E expenditure could significantly differ.

40. Our research of the diversity in accounting policies in October 2020 (Agenda Paper 19A) found that most entities apply a capitalisation policy however, there are some entities that apply an expense policy.

41. As paragraph 13 of Agenda Paper 19A explains, stakeholders said they need more information to compare entities applying different accounting policies. One member of the IASB's Capital Markets Advisory Committee said better information about E&E expenditure and what entities that expense E&E expenditure would have capitalised would be useful and would allow users to make appropriate adjustments.

One national standard-setter said a capitalisation policy results in better continuity and allows users to easily track project expenditure on a cumulative basis.

42. In our review of entities' annual filings, we found one entity applying an expense policy that disclosed cumulative exploration costs by project in financial statements.

43. Information about cumulative E&E expenditure incurred by an entity applying an expense policy would be similar to information disclosed in a fixed asset note by an entity applying a capitalisation policy. Such information could help users track E&E expenditure on a cumulative basis and compare entities with different accounting policies.

44. There are a number of questions the IASB would need to answer in considering this suggestion:

    (a) how feasible and costly it would be for entities applying an expense policy to disclose information about cumulative E&E expenditure—for example a few entities applying a capitalisation policy make significant judgements about the allocation of overheads to E&E expenditure and other operating expenditure. Requiring entities applying an expense policy to provide cumulative information could require those entities to make similar judgements and in effect, apply a capitalisation policy for disclosure purposes.

    (b) whether information about cumulative E&E expenditure should be based on cash flows or amounts recognised in the Statement of Comprehensive Income.

    (c) whether to specify which E&E expenditure should be included in the cumulative amount—as explained in Agenda Papers 19A and 19B, entities that apply a capitalisation policy often still expense some E&E expenditure in the period those expenditures are incurred and the expenditure that different entities classify as E&E expenditure can vary. The diversity in what different entities consider to be E&E expenditure, and therefore would disclose as a cumulative amount of E&E expenditure, might still not allow users to compare entities that capitalise or expense and limit the benefits of this information.

(d) whether to require an entity that expenses its exploration costs as they are incurred but capitalises its evaluation costs to provide similar information to that being suggested.

45. On balance, based on our findings and analysis in this phase of the project, we plan to explore further the suggestion for entities that expense E&E expenditure to disclose cumulative E&E expenditure information. We will explore the usefulness of the information and the questions in paragraph 44 in the outreach we plan to perform in the next phase of the project.

Information to help understand the risks and uncertainties of E&E activities

46. Paragraph 1.3 of the 2010 Discussion Paper *Extractive Activities* notes:

> Extractive activities are subject to several significant uncertainties. During exploration it is common to have insufficient data to evaluate whether a deposit of minerals or oil and gas will be developed and will generate future net cash inflows from the extraction and sale of the minerals or oil and gas. These uncertainties revolve around the quantity of minerals or oil and gas that exist and can be extracted given the geological, technical and economic conditions.
>
> …

47. As reported in Agenda Paper 19A (see paragraph 14) one national standard-setter said IFRS 6 was issued as an interim standard and does not require disclosures to enable users to understand the risks and uncertainties about extractive activities. In their view, further work is needed to assess whether entities should be required to disclose better information about E&E activities. Feedback summarised in Agenda Paper 19A suggests users find information about E&E activities more important than the accounting for E&E activities.

48. Our review of annual filings (see paragraphs 45–46 of Agenda Paper 19B) identified that most entities provided some information about risks and uncertainties associated with E&E activities either outside financial statements or in financial statements. Most entities with E&E assets also indicated the uncertainty associated with those

assets in their disclosures about the accounting policies applied (see paragraph 36 of Agenda Paper 19B), for example by:

(a) disclosing conditions that must be met to justify capitalising E&E expenditure;

(b) disclosing that costs are capitalised pending an assessment of commercial viability and technical feasibility; and

(c) labelling the assets as ‘deferred’ E&E expenditure.

49. However, as noted in paragraph 48 of Agenda Paper 19B, information about risks and uncertainties entities provided typically related to their E&E activities in general, rather than information about specific risks and uncertainties associated with particular E&E activities or projects.

50. As we identified in Agenda Paper 19B (see paragraph 50) many of the annual filings provided ‘operational information’ about an entity’s E&E activities outside the financial statements on a disaggregated basis, for example by project. This information provides users information about, for example, the mineral rights (permitting arrangements), progress on individual projects, current and planned activities, discoveries (including any official reported resource information), and the location of different projects.

51. This information can be helpful to assess the risks and uncertainties of different projects. For example, the information could help understand:

(a) the stage of a project (as exploration activities and evaluation activities progress, the uncertainty reduces);

(b) successes (including the level of certainty around any discoveries where resource information is reported);

(c) political risks (associated with activities in a particular country);

(d) exploration risks (exploration in remote areas and exploration on greenfield sites or on brownfield sites);

(e) operational risks (for example the need for specialised equipment as highlighted in the commentary of current and planned activity);

(f) geological risks (for example the challenges of the particular geology associated with a project as highlighted in the commentary of the current and planned activity); and

(g) title risks (for example any title disputes).

52. This information could help users assess an entity's prospects for future cash flows, helping to assess the magnitude of those cash flows, the timing and the factors affecting the probability of their occurrence. One academic study (see paragraph 24 of Agenda Paper 19A) found information about capitalised E&E expenditure was useful only when supported by non-financial information on geological milestones.

53. The 'operational information' entities provided was often specialist in nature, for example providing drilling information such as type of drilling, orientation, depths and results, or the information is governed by regulatory requirements—reporting of 'exploration results' governed by the Australian Securities Exchange (ASX) or the reporting of reserve and resource information. Consequently, this information is generally provided outside the financial statements and might not be available in all jurisdictions.

54. In our review of annual filings it was also often difficult to link the amounts in the financial statements for E&E expenditure to the 'operational information' provided outside the financial statements. For example it was often not possible to understand how much an entity spent on the different activities in the different projects in a reporting period, because the financial statements included only aggregated amounts for all E&E activities. It was also not always possible to understand the cumulative expenditure (or E&E asset) associated with different projects.

55. Some entities did disclose some information about the nature or stage of their E&E projects in financial statements. Some entities (see paragraph 49 of Agenda Paper 19B) disclosed a threshold for capitalising E&E expenditure. This disclosure can also provide some insight into the nature or stage of E&E activities and therefore some information on the risks and uncertainties associated with the E&E activities. However, most entities did not disclose such information in financial statements.

56. Accordingly, we think the IASB could explore whether to require entities to disclose information about risks and uncertainties of E&E expenditure and activities in financial statements.

57. As discussed in paragraph 47 there are no requirements in IFRS 6 to disclose information about the risks and uncertainties of extractive activities. We note that IFRS Accounting Standards do include requirements to disclose information about risks and uncertainties associated with other activities. For example IFRS 7 *Financial Instruments: Disclosures* requires entities to disclose information about the nature and extent of risks arising from financial instruments.

58. If the IASB were to explore requiring entities to disclose information about the risks and uncertainties of E&E expenditure and activities, we think the IASB could, for example, require entities to disclose some basic information about their E&E activities such as the nature of the activities, the stage of the activities and the location of the activities. The suggested disclosures would focus on risks and uncertainties specific to the entity's E&E activities rather than general risks that could affect other activities (for example, climate risk).

59. We think the information about risks and uncertainties of E&E activities might be more useful when provided for the individual E&E activities (that is on a disaggregated basis) rather than for the entity's E&E activities as a whole. The IASB could therefore also require entities to disclose a breakdown of E&E assets or expenditure by, for example, major project and provide the information about risks and uncertainties for those projects.

60. This could also help link the amounts recognised in financial statements to the information outside financial statements when provided. In our review of annual filings some entities disclosed a breakdown of E&E assets by major project in the fixed asset note to the financial statements which could allow the operational information outside financial statements to be linked to amounts in financial statements (see paragraph 54(b) of Agenda Paper 19B).

61. Based on our findings and analysis in this phase of the project, we plan to explore further whether to require entities to disclose information about the risks and uncertainties of E&E expenditure and activities. There are a number of questions the

IASB would need to answer in considering this suggestion. We will explore these questions in the outreach we plan to perform in the next phase of the project:

(a) How should entities disaggregate their E&E expenditure in order to provide the information about risks and uncertainties;

(b) What E&E expenditure should be disaggregated—annual or cumulative (whether expensed or capitalised);

(c) Is information about risks and uncertainties of the E&E activities needed whether an entity capitalises or expenses its E&E expenditure;

(d) What information would users find useful;

(e) What information should be required given the information we found provided outside the financial statements:

   (i) was often very detailed and specialised;

   (ii) may not be the type of information that would be normally included in the financial statements—for example the IASB's tentative decision in September 2021 was not to explore requiring reserve and resource information to be included in the financial statements; and

   (iii) may not be audited; and

(f) How costly would it be for entities to provide this information (one preparer in our prior research cautioned against extending disclosure requirements particularly for smaller entities (see paragraph 18 of Agenda Paper 19A)).

Next steps

62. Based on our findings and analysis in this phase of the project, we plan to explore further:

(a) whether and how entities can disclose better information about the different accounting policies entities apply to E&E expenditure specifically in relation to:

   (i) unit of account;

(ii) E&E expenditure; and

(iii) when capitalisation starts and stops;

(b) whether information about cumulative E&E expenditure could be provided to help compare entities that apply different accounting policies for E&E expenditure; and

(c) whether information about the risks and uncertainties associated with E&E expenditure and activities could be provided.

63. We plan to conduct limited outreach with users, preparers and auditors to obtain their feedback on the suggestions in paragraph 62 and to ask the specific questions identified in paragraphs 37, 44 and 61 on these suggestions. We will also ask whether there is other information about E&E expenditure and activities that would be useful.

64. This outreach will help the IASB better understand:

(a) users' information needs;

(b) why users do not get that information; and

(c) the costs of requiring entities to provide that information.

65. We will use this information to:

(a) refine these suggestions; and

(b) develop our recommendation on whether and how the IASB can develop requirements or guidance to improve the disclosures about an entity's E&E expenditure and activities to provide more useful information to users.

Questions for the IASB

Does the IASB have any comments on our plan to explore the suggestions in paragraph 62 further in the next phase of the project?

Does the IASB have any particular questions in addition to those highlighted in this paper that it would like us to discuss with stakeholders in the next phase of the project?

Appendix—Extracts from IAS 1 *Presentation of Financial Statements* related to accounting policy disclosures

A1. Paragraphs 117–122 of IAS 1 state:

> **117 An entity shall disclose its significant accounting policies comprising:**
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> **(a) the measurement basis (or bases) used in preparing the financial statements; and**
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> **(b) the other accounting policies used that are relevant to an understanding of the financial statements.**
>
> 118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
>
> 119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the

measurement bases used for classes of property, plant and equipment.

120 [Deleted]

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

A2. These paragraphs were amended by the IASB when it issued *Disclosure of Accounting Policies* in February 2021. An entity shall apply the amendments to IAS 1 for annual reporting periods beginning on or after 1 January 2023. The effect of these amendments will have on the disclosure of accounting policies for E&E expenditure is therefore not yet known. The revised paragraphs are as follows:

117 An entity shall disclose material accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

117A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by IFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

(c) the accounting policy was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions.

117C Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.

117D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs.

118–121 [Deleted]

122 An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.