
IASB[®] Meeting

Date	July 2023
Project	Extractive Activities
Topic	Summary of feedback—Information to help compare entities with different accounting policies
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Purpose and structure

1. As explained in Agenda Paper 19, this paper summarises feedback from our research on suggestions to improve information to help users of financial statements (users) compare entities with different accounting policies for exploration and evaluation (E&E) expenditure.
2. This paper is structured as follows:
 - (a) Background (paragraphs 3–7);
 - (b) Summary of feedback (paragraphs 8–29); and
 - (c) Appendix.

Background

3. There is diversity in the accounting policies entities apply to E&E expenditure (see previous research included in [Agenda Paper 19A](#) to the IASB's October 2020 meeting and [Agenda Paper 19B](#) to its July 2020 meeting).

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4. One of the fundamental differences in these accounting policies 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.
 5. In its September 2022 meeting the International Accounting Standards Board (IASB) discussed a suggestion to require an entity to disclose cumulative spend information—information about cumulative E&E expenditure incurred by an entity on its current E&E activities in aggregate (see paragraphs 38–45 of [Agenda Paper 19C](#) to the IASB’s September 2022 meeting). Such information could help users track E&E expenditure on a cumulative basis and compare entities with different accounting policies.
 6. As explained in Agenda Paper 19, we performed further outreach with various stakeholders, to understand whether entities could disclose cumulative spend information to help users compare entities with different accounting policies.
 7. We provided stakeholders with an example illustrating the difficulty of determining the cumulative spend on an entity’s current exploration projects when the entity follows an expense policy (see appendix). We asked for feedback about:
 - (a) whether cumulative spend information would be useful;
 - (b) how users would use that information;
 - (c) what challenges there would be to preparers in disclosing that information; and
 - (d) whether an entity that capitalises most, but not all, of its E&E expenditure should also disclose cumulative spend information.

Summary of feedback

8. Because of the interrelationships between the questions in paragraphs 7(a)–(d) we have not separated out feedback on each of those questions. Instead, we have grouped feedback by stakeholder type.

Users

9. Most users said cumulative spend information would be useful, however they provided different reasons why.
10. Almost all users we spoke to said the information would be useful and could help them, for example:
- (a) assess an entity's reserve replacement¹ efforts;
 - (b) challenge management's exploration activities;
 - (c) calculate the ratio of amounts of expenses and write-offs to amounts transferred to development, which is a useful ratio that is harder to calculate for entities that expense E&E expenditure;
 - (d) compare entities;
 - (e) assess how good entities (and management) are at exploring but the information would not necessarily be used to compare entities because it is difficult to compare this information; and
 - (f) assess the exploration cost for minerals or oil and gas for each entity and therefore help rank exploration entities.
11. However, these users also said the information:
- (a) is not something they were specifically looking for (one user);

¹ Reserve replacement is a measure of the extent to which an entity engaged in extractive activities replenishes its proved reserves of minerals or oil and gas through its E&E activities.

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- (b) would allow better understanding of how capital has been deployed by an entity but only if disclosed by project—if disclosed only in aggregate, it would be nice to have but not as useful;
 - (c) would be useful, but it would be unreliable because of the type of expenditure that can be included; and
 - (d) might not make a big difference because they tend to compare entities that have the same accounting policy for E&E expenditure.
12. Users we spoke to had mixed views about whether cumulative spend information should be required for entities that capitalise only some of their E&E expenditure. One user we spoke to said the information would help because otherwise the information disclosed would still be affected by the diversity in accounting policies, for example, differences in which expenses an entity capitalises. However, another was uncertain and said the entity has decided that some of its E&E expenditure is a short-term cost and therefore maybe it is appropriate to not include this item in the cumulative spend information.
13. One user we spoke to said they might be able to compile information about cumulative E&E expenditure themselves if there was better disclosure of amounts of E&E expenditure expensed in each period.
14. The feedback from users that national standard-setters (NSS) spoke to was generally consistent with our feedback. One NSS reported users in their jurisdiction generally supported requiring an entity to disclose cumulative spend information (regardless of whether the entity expensed or capitalised E&E expenditure). The information would help calculate return on capital. The other NSS reported that feedback from users they spoke to was more mixed. Users in favour of this suggestion said the information would be useful, but only if disaggregated, providing greater transparency of the total costs for specific exploration sites. However, aggregated cumulative spend information might still provide some indication of future E&E spend. Other users said the information would not be decision-useful because these are historic costs.

Preparers

15. Most preparers said cumulative spend information would likely not be useful. There were also mixed views on the costs of disclosing this information.
16. Most preparers we spoke to questioned how beneficial this information would be, and said, for example:
 - (a) the information is not material, large entities are assessed based on reserve replacement and junior entities are assessed on whether they have sufficient cash to complete operations;
 - (b) users can compile the information themselves;
 - (c) the information could confuse users because it would conflict with an entity's accounting policy decision to expense its E&E expenditure and requiring this information seems to question the choice of accounting policy;
 - (d) E&E expenditure and activities are not comparable—for example, the costs associated with deepwater oil and gas exploration are significantly different to the costs of onshore exploration;
 - (e) users tend to compare entities with similar accounting policies; and
 - (f) information about past expenditure is not important, users want to know about future expenditure.
17. Preparers we spoke to had mixed views on whether the information would be difficult or costly to prepare. Many said they have the information, and it would not be costly to disclose this information, although one said this would be the case only if the entity was required to disclose the cumulative spend and not require an entity to, for example, assess that spend for impairment. One also said further information would need to be disclosed to explain the cumulative spend information. One said disclosing this information would show good management and robust internal controls. However, they said it might be challenging for smaller exploration entities to disclose this information.

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18. However, many other preparers we spoke to were concerned about the cost and complexity of preparing this information, they said:
- (a) they would need to change their systems to be able to disclose this information;
 - (b) they have many projects for which they would need to collect the information for;
 - (c) there would be costs to maintain internal controls over the information;
 - (d) guidance would be needed on which costs to include in the amount disclosed; and
 - (e) guidance would be needed on when a project is no longer a ‘current’ project.
19. The feedback from preparers that the NSS spoke to was generally consistent with our preparer feedback.
20. Preparers that one NSS spoke to said the information was generally available and feasible to disclose however, there were concerns that disclosing the information could be costly if projects have a long history, if overheads had to be allocated or an entity had a lot of projects. Generally, these preparers said guidance would be needed on what to include in E&E expenditure and what happens if projects move back to the evaluation stage from production.
21. These preparers also questioned the usefulness of the information—the information would not be comparable, users can compile this information themselves and users are more interested in costs to complete exploration and the success of exploration rather than historic costs. One preparer asked why this information wouldn’t be required for research and development expenditure.

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22. The other NSS reported its stakeholders² were mostly unsupportive of this suggestion. They said the suggestion was costly and not practical if needed retrospectively and junior mining entities might not have the information readily available. Guidance would also be needed to explain what a ‘current’ project means. The information would also not be comparable because it would omit impairments, and would not be useful if required only prospectively—especially for mining exploration which can have very long timelines. These stakeholders also said the suggestion seems to penalise entities that have selected an accounting policy that expenses E&E expenditure. Those stakeholders that did support this suggestion said there may be some benefit to users that already use similar information disclosed outside financial statements because this could increase comparability across entities with E&E activities, and it may not be too costly to disclose this information.

Auditors

23. Auditors generally said cumulative spend information could be disclosed, but there were some concerns.
24. One auditor we spoke to said it was possible to disclose this information as long as entities do not need to consider impairment and only cumulative costs to date have to be disclosed. They also said guidance would be needed for example, to explain how to treat credits to E&E expenditure, such as farm-ins.
25. Another auditor also said that it would be possible to disclose this information as long as it was only disclosed prospectively. They questioned why this information should be provided for E&E expenditure and not, for example, for research and development expenditure. They said it was unclear whether the benefits of disclosing this information would exceed the costs to prepare and audit the information.

² One NSS reported feedback from preparers, auditors and regulators together and it was not possible to attribute the feedback to specific stakeholder groups. We have included the feedback in the stakeholder group that we think it is most relevant to, but the comments might also be attributable to other stakeholder groups.

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26. One NSS reported that auditors they spoke to said the information could be useful, providing a better idea of what has been spent and that entities should be able to disclose this information, although application guidance would be needed. They also said an entity that capitalises most of its E&E expenditure, but expenses some of its E&E expenditure, should also be required to provide this information.

Regulators

27. Regulators generally said cumulative spend information would be useful and entities should be able to disclose this information.
28. Regulators we spoke to said the information would be useful. One said the information would help comparability however, they did question whether knowing an entity has spent significant amounts on exploration but has yet to find anything would be useful. Both regulators said the information should be required regardless of the entity's accounting policy, therefore even those entities that capitalise some E&E expenditure should provide this disclosure.
29. One NSS reported that regulators generally supported disclosing this information—although this may be less useful if it is not disaggregated by project—and entities should be able to disclose this information. The other NSS reported that stakeholders³ said junior entities without significant revenue are required to report this information in their jurisdiction. Stakeholders therefore had concerns that the suggestion would duplicate information already required in their jurisdiction and they questioned whether the benefits of disclosing this information for all other entities would exceed the costs of providing the information.

Question for the IASB

1. Do IASB members have any comments on the feedback summarised in this paper?

³ One NSS reported feedback from preparers, auditors and regulators together and it was not possible to attribute the feedback to specific stakeholder groups. We have included the feedback in the stakeholder group that we think it is most relevant to, but the comments might also be attributable to other stakeholder groups.

Appendix

A1. We included in our outreach materials an example illustrating the difficulty of determining the cumulative spend on an entity’s current exploration projects when the entity follows an expense policy.

Example

E&E costs	Year 1	Year 2	Year 3
Project 1	CU 10	Abandoned	
Project 2	CU 10	CU 10	Transferred to development
Project 3	CU 10	CU 10	CU 10
Total	CU 30	CU 20	CU 10

A2. For an entity that capitalises its E&E expenditure, the E&E asset at the end of Year 3 is Currency Units (CU) 30, being the cumulative spend on Project 3.

A3. For an entity that expenses its E&E expenditure, without information about that expenditure by project, it is not possible to determine how much of the E&E expense recognised in the Income Statement (CU 30, CU 20 and CU 10 in Years 1–3 respectively) relates to current exploration projects and therefore to determine that CU 30 has been spent to date on the current project (Project 3).