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Our ref : AdK  
Date : Amsterdam, 2 July 2010  
Re : Comment on your draft comment letter regarding the IASB DP Extractive  
Activities

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter regarding your opinion on the DP Extractive Activities.

We are not convinced that the development of an accounting model for extractive activities that is different from that of other industries or activities is necessary and therefore urge you to put this more pervasively in your comment letter. Furthermore, in our comment letter to the IASB we will ask the Board to develop a clear vision on the future need for industry specific accounting standards

Your draft comment letter is an excellent summary of the main changes proposed and includes comments with which we concur. We wholeheartedly support your letter and therefore have decided to refer to your draft comment letter in our comment letter to the IASB. We hereby assume you have made a minor error in the draft comment letter. In paragraph 104 you probably mean that the cost of preparation of the additional disclosures *will* outweigh the benefit of their inclusion, with which we fully concur. We suggest you to also mention this in your covering letter, after h).

In the appendix to this letter we have responded to your questions to constituents.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans de Munnik', written over a horizontal line.

Hans de Munnik  
Chairman Dutch Accounting Standards Board

## APPENDIX

### Specific questions EFRAG

Page 9, Question to constituents:

- If constituents are aware of any conceptual basis for the asset continuum proposals and its interaction with current IFRSs and;
- What impact the deletion of the scope exemptions to current IFRSs (specifically IAS 16, IAS 17 and IAS 38) would have on current practice and if this would result in decision useful information

*Answer DASB:*

Currently in practice two concepts are used: either a full cost method or successful efforts method. These concepts are not defined in current IFRSs.

In our view, the IASB should investigate the consequences of using current IFRSs rather than the scope exemptions for Extractive Activities.

The DASB has not done extensive research, but our overall impression is that especially for smaller oil and gas companies, a high proportion of recognized assets have an indeterminable future value prior to production. Using current IFRSs, these assets would be expensed. For the larger companies that have annual recurring exploration activities it would be less problematic to record the expenses in profit and loss, yet for smaller companies with a small number of exploration activities this could have a material impact on annual results and increased volatility. We doubt whether this will provide users with more decision useful information.

Another approach would be to change IAS 38, to make it possible to capitalize all costs incurred until there are results from exploration. If these results lead to a development phase, the costs incurred can stay capitalized; if not they have to be expensed.

Page 14, Question to constituents:

EFRAG would like to know constituents' view on the application of IAS 36 to extractive activities and any unintended consequences that may arise from such an approach.

*Answer DASB:*

IAS 36 is used for extractive activities, but not for the exploration phase due to the exemption under IFRS 6. Removing the exemption will lead to the expensing of all exploration costs as in this early stage not enough information will be available to support capitalization. On the other hand, when first using IAS 38 to determine which costs can be capitalized, IAS 36 will not have any unintended consequences thereafter.

Page 24, Question to constituents:

EFRAG would like to know the views of constituents specifically in relation to disclosures. In addition to general comments it would be useful to understand the views of constituents:

- About relative usefulness of proposed disclosures
- Information on projects in near future with time indication
- Any alternatives not presented.

*Answer DASB:*

The proposed disclosures requirements are extensive and not all of the requirements are seen as useful. The DASB has assessed the relative usefulness per type of disclosure. In general, we doubt all governments will allow the detailed information to be presented on a country level and urge the IASB to provide guidance for situations when a prohibition letter is issued or where local law prohibits such disclosures on country or field level. Furthermore, we doubt the extensive disclosure requirements should be part of the financial statements and meet the objectives mentioned in the Framework. The disclosures would also be a challenge for auditors, particularly if they would be include in the financial statements.

Our assessment of the relative usefulness per type of disclosure:

1. Reserve quantities

The DASB agrees with the comments made by EFRAG.

To require the same disclosures for both the proved and the probable reserves is not beneficial from a cost/benefit perspective. There is more uncertainty regarding the probable reserves and therefore less detailed disclosure requirements will be more appropriate.

In our view the suggested required disclosure of the qualification of the preparers of the reserves information is also too extensive.

2A. Current value measurement

The DASB agrees with the comments made by EFRAG. If proved and probable reserve quantities are disclosed, users can use this information as input for their own current/ fair value estimates.

2B. Fair value

The DASB agrees with the comments made by EFRAG. It is our understanding that users are not interested in fair value disclosures per se, although some do use information from the standardized measure disclosures.

3. Production revenues

The DASB agrees with the comments made by EFRAG. Realized prices are probably more useful than production revenues.

4. Costs

The DASB agrees with the comments made by EFRAG, with the exception of the proposed additional disclosures on results of operations (98c). These additional disclosures will in fact lead to the inclusion of statements of profit and loss for each individual project. We are not convinced that the related costs of preparing these statements will be outweighed by the benefits.

## 5. Alternatives not presented

It could be useful to require disclosures on wells drilled, success rates and wells capitalized for a longer period of time. Also the inclusion of information about projects that are about to be commissioned, or that will begin production in the near future, with an indication of the timing thereof could provide meaningful information.

As much of the additional disclosures are included in investor packs, we suggest the IASB to further investigate the differences between the information available in investor packs, disclosures required by SEC/FASB and the disclosures in the DP and assess the consequences thereof for the disclosures required by companies.

Page 26, Question to constituents:

EFRAG would like to know the views of constituents in this regard (PWYP).

### *Answer DASB:*

Although the principal idea of the Publish What You Pay could be beneficial for certain users, this should not be solely related to the extractive industry. If the IASB believes that such disclosures should be part of the financial statements, then it should develop a generic standard to that effect. We currently believe the PWYP disclosures do not fit the objective of financial reporting<sup>1</sup> and therefore should not be included in the financial statements. We agree that the cost of preparation of the additional Publish What You Pay disclosures might in some instances be outweighed by the benefit of their inclusion, but we also believe these disclosures will sometimes not be available or cannot be made public due to government regulations.

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<sup>1</sup> *The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.*