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## **Extractive Activities – Cover Note**

### **Objective**

- 1 The objective of this session is to:
  - (a) revisit the content of the Discussion Paper *Extractive Activities* (the DP) and of the feedback received; and
  - (b) request feedback from EFRAG TEG-CFSS members on:
    - (i) any significant changes in extractive activities since the DP; and
    - (ii) whether users understand the diversity of accounting practice for extractive activities; and
    - (iii) how users cope with that diversity.

### **Background**

- 2 The IASC initiated the drive for an accounting standard aimed at resolving accounting issues endemic to extractive activities in 1998, which led to the publication of Issues Paper *Extractive Industries* in November 2000.
- 3 In 2001 the IASB announced that the project would be resumed when sufficient agenda time was available.
- 4 In 2002 the IASB decided that it was not feasible to complete a comprehensive project on accounting for extractive activities in time for IFRS adoption in 2005. As an interim measure, the IASB issued IFRS 6 *Exploration for and Evaluation of Mineral Resources* in 2004.
- 5 In 2010 the IASB issued a Discussion Paper *Extractive Activities* prepared by a group of staff team from national standards setters from Australia, Canada, Norway and South Africa. The IASB decided to wait until the 2011 agenda consultation before doing more work.
- 6 In 2012, following the agenda consultation in 2011, the IASB assigned the project as low priority and noted that the scope should be broadened to include research and development activities and intangible assets.
- 7 In 2016, following the agenda consultation in 2015, the extractive activities project were added to the research pipeline and was no longer included with research and development activities and intangible assets.
- 8 In 2018 the IASB plans to start work on the project by asking National Standard Setters that contributed to the DP to inform the IASB of any significant changes in extractive activities.

**2010 Discussion Paper**

- 9 The DP included a range of topics, and the responses are summarised as follows:
- (a) Scope: Mixed views were obtained as some wanted a broader project on intangibles so that extractive accounting is consistent with other activities.
  - (b) Reserve and resource definitions: There was broad support for using existing industry definitions for minerals and oil and gas.
  - (c) Recognition: There was general agreement that legal rights for exploration or extraction should be recognised as assets and general disagreement that subsequent activities would always result in an enhancement of the asset.
  - (d) Unit of account: There was general agreement that the unit of account should initially be based on legal rights, although the unit of account would generally contract to a single area or group of contiguous areas.
  - (e) Measurement: The majority of respondents agreed that historical costs should be used as fair value was too subjective, volatile and costly.
  - (f) Depreciation/Impairment:
    - (i) The DP suggested that depreciation should be applied separately to legal rights and properties where minerals or oil and gas were found. Further guidance was requested.
    - (ii) Most disagreed with the proposal to create an exception to IAS 36 *Impairment of Assets* for exploration rights. Additional concerns were raised that the impairment proposal to write down assets only when there is a high likelihood of the carrying amount not being recoverable placed too much reliance on management judgement.
  - (g) Disclosures:
    - (i) Most agreed with the disclosure objectives that information should be provided so that users could evaluate the value of extractive properties, the current period financial performance and the nature and extent of risks. Overall concerns were expressed with the volume of the disclosure requirements.
    - (ii) For reserve quantities - It was agreed that these should be located outside the notes and some thought that it should form part of the management commentary. Concerns were expressed that financial reporting and regulatory disclosures could be duplicated.
    - (iii) There was significant support for reconciliations of opening and closing balances of reserve quantities.
    - (iv) Most considered Publish What You Pay disclosures to be outside the scope of financial reporting.

**Questions for EFRAG CFSS**

- 10 Are EFRAG TEG-CFSS members aware of any significant changes in extractive activities since the DP?
- 11 What are EFRAG TEG-CFSS members' view on:
- (a) whether users understand the diversity of accounting practices for extractive activities; and
  - (b) how do users cope with that diversity?

**Agenda Papers**

- 12 In addition to this paper, agenda paper 10-02 *ASAF 05 Extractive Activities TEG-CFSS 18-09-26* has been provided for this session.