

Extractive Activities

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 6
March 2021

Purpose of this session

Agenda ref 6



- To provide an update on the Extractive Activities research project
- To seek ASAF members' input about the scope and direction of the project in preparation for the International Accounting Standards Board's (Board's) discussion in Q2 2021 (**see questions in slide 3**)

	Slides
Project background	5
Update on research activities	7–9
Summary of feedback (so far)	11–13
Project direction Some preliminary staff considerations	15–21
Appendix A An update on research activities	23–32

Questions for ASAF members

Agenda ref 6

1. Slides 18–20 list key evidence the staff think is relevant to the consideration of the scope suggestions.
 - Is there additional evidence you think should be considered?
2. Slide 21 lists the factors the staff think the Board should consider to determine whether a matter highlighted by the staff’s evidence should be addressed.
 - Do you agree with these factors?
 - Are there additional factors you think the Board should consider when deciding what the scope of this project should be?
3. Do you have any additional comments?



Project background

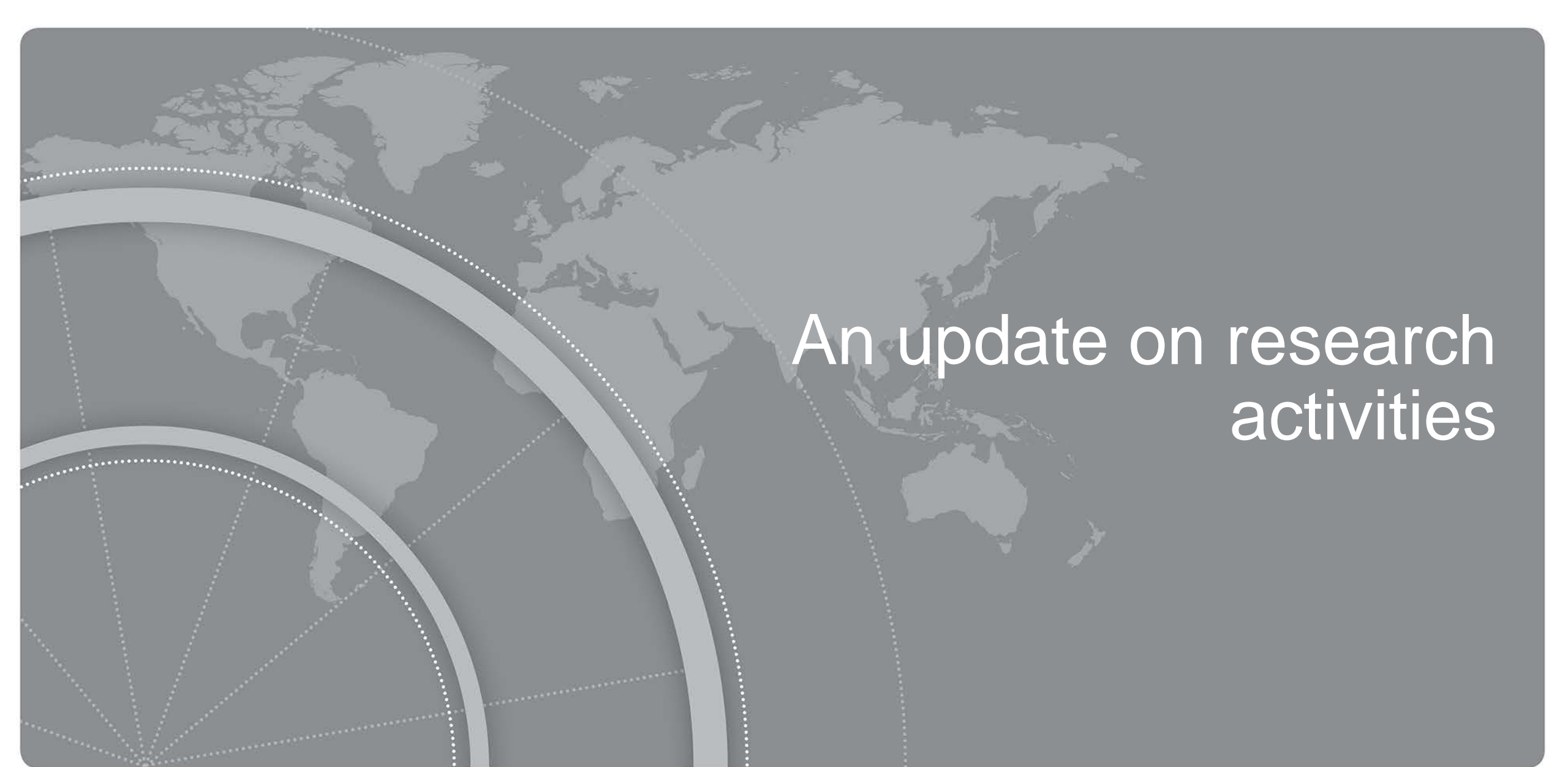
- Project added to Board's active research programme in 2018
- The Board is considering evidence to help it decide whether to start a project to develop proposals to replace or amend IFRS 6 *Exploration for and Evaluation of Mineral Resources*



IFRS 6

- addresses the accounting for exploration and evaluation expenditure
- does not specify an accounting policy for exploration and evaluation expenditure, but requires entities to develop an accounting policy
- provides entities with a temporary exemption from parts of the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an accounting policy for exploration and evaluation expenditure

- A summary of the research activities performed to date is provided on slides 7–9

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, connecting various points across the map, suggesting a global or interconnected theme.

An update on research activities

March
2019

- The Board commenced its research project on Extractive Activities by asking the national standard-setters, whose staff contributed to the 2010 Discussion Paper *Extractive Activities*, being Australia, Canada, Norway and South Africa, to inform the Board of any significant developments in extractive activities since the publication of the Discussion Paper (see [March 2019 Agenda Paper 19](#) and *Appendix A*)

September
2019

- The Board also considered relevant feedback from the Discussion Paper as part of that evidence (see *Appendix A* for key themes of feedback to the Discussion Paper) and considered the potential effect on the analysis and proposals in the Discussion Paper of new Standards, amendments and other Board documents issued by the Board, and other relevant changes, since the Discussion Paper was published (see [September 2019 Agenda Papers 19 – 19F](#) and *Appendix A*)

An update on research activities (cont.)

Agenda ref 6

June
2020

- The Board considered a summary of feedback from additional outreach activities with national standard-setters and other stakeholders from jurisdictions which also have significant extractive industries (see [June 2020 Agenda Paper 19A](#) and *Appendix A*) in order to determine:
 - what problems, if any, entities with extractive activities have applying IFRS Standards
 - whether the primary users of financial statements of entities with extractive activities are obtaining all the information they need for these entities

July
2020

- The Board considered:
 - how activities within the scope of IFRS 6 would be accounted for in the absence of that Standard, applying the requirements in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (see [July 2020 Agenda Paper 19A](#) and *Appendix A*)
 - academic evidence on extractive activities and topics relevant to IFRS 6 (see [July 2020 Agenda Paper 19B](#) and *Appendix A*)

An update on research activities (cont.)

Agenda ref 6

September
2020

- The Board considered the diversity of reserve and resource classification systems and of the regulatory requirements for the disclosure of reserve and resource information (see [***September 2020 Agenda Paper 19A***](#) and *Appendix A*)

October
2020

- The Board considered whether there are jurisdictional accounting requirements for exploration and evaluation (E&E) expenditure that differ from the requirements in IFRS 6 and the diversity of accounting policies developed applying the requirements of IFRS 6 (see [***October 2020 Agenda Paper 19A***](#) and *Appendix A*)

February
2021

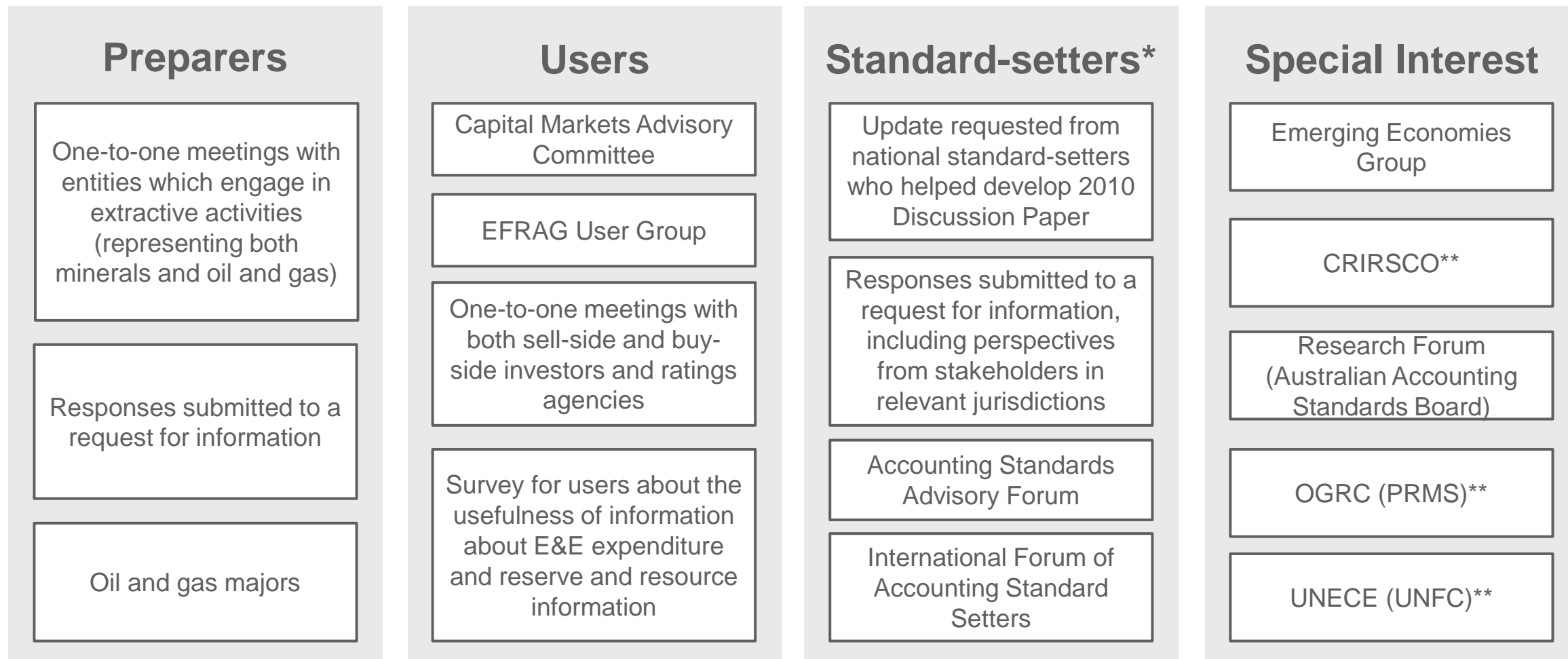
- The Board held an educational session which explained further extractive activities in the minerals and oil and gas industries and some of the financial reporting challenges that arise in those industries (see [***February 2021 Agenda Paper 19A***](#) and *Appendix A*)



Summary of feedback (so far)

Stakeholders consulted

Agenda ref 6



*Feedback from preparers and users from outreach performed by national standard-setters is included on slides 12 and 13 and see also *Appendix A*

**Committee for Mineral Reserves International Reporting Standards (CRIRSCO), Petroleum Resource Management System (PRMS) and the United Nations Framework Classification for Fossil Energy and Mineral Resources (UNFC)

Key themes of feedback from users (so far)

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Non-IFRS information* / disclosures outside financial statements

- Focus is primarily on **non-GAAP performance measures, cash measures, reserves and resources** (although more granular information is sometimes needed by metal, mineral, property)
- **Lack of consistency and comparability** of non-IFRS information disclosed outside financial statements
- Non-IFRS information is generally required to **complement and enhance users' understanding** of financial statements and this information is not always publicly available (however, survey responses indicate that most users get the information they need for a majority of companies they follow)
- **Reserve and resource information** is generally viewed as more useful to users than information about E&E expenditure; however, many still view information about E&E expenditure as important

IFRS information / financial statement disclosures

- Lack of consistency and comparability in **accounting for E&E expenditure** is a concern but majority would prefer improved disclosures about E&E expenditure rather than a prescribed accounting policy
- **Accounting policy disclosures** are often not clear enough to understand how an entity accounts for its material E&E expenditure
- **E&E expenditure information** is more important for smaller companies, which tend to be less diversified
- Improving granularity of information about **management's judgements and assumptions** for all activities would be useful
- Effects of **climate-change and environmental issues and obligations** are not clear

* eg management commentary, reserve and resource information

Key themes of feedback from preparers* (so far)

Agenda ref 6

IFRS 6 application challenges

- Developing an appropriate **accounting policy** and identifying an appropriate **unit of account**
- Lack of defined **terms** (eg technical feasibility and commercial viability)
- **Impairment** assessment of **E&E assets** (eg impairment indicators, recoverable amount)
- Concerns about any change to IFRS 6 that would specify an accounting policy as it currently allows alignment to US GAAP, or a capitalisation policy that is important for smaller entities to attract investment

Other IFRS application challenges

- Accounting for **complex arrangements** (eg risk-sharing arrangements such as production sharing contracts, streaming arrangements), particularly during the exploration and evaluation phase
- Applying IFRS Standards to **assets** that are simultaneously in **development and production**
- Applying particular requirements in **IFRS Standards** issued since 2010 (eg IFRS 11, IFRS 16)
- Lack of guidance on applying IFRS Standards to **particular aspects** of extractive activities (eg IAS 16 and unit of production depreciation, IAS 37 and rehabilitation obligations)

Additional information requested by investors (see slide 12)

- **Reserve and resource information** (eg quantities, economic unit, price assumptions, definitions); however, some preparers think that such disclosures fall outside the scope of IFRS Standards
- Information about **rehabilitation / restoration obligations**
- Management **judgements and assumptions** relating to all extractive activities
- **Non-GAAP performance measures** – especially cash and cost measures

*includes auditors



Project direction

Some preliminary staff considerations



The scope of IFRS 6 is currently limited to exploration and evaluation (E&E) expenditure. The scope of this research project is to consider whether there is a need to amend or replace IFRS 6

- This section outlines the initial thinking of the staff of how to define the problem and hence determine the scope of any subsequent project:
 - Suggestions for scope of project from stakeholders (slide 16)
 - Possible project objectives (slide 17)
 - Summary of key feedback the staff think is relevant to scope suggestions (slides 18–20)
 - Factors to consider when assessing scope suggestions and defining the problem (slide 21)
- Because this is the staff's initial thinking, this is subject to change. ASAF members' answers to the questions on slide 3 will help develop the staff's thinking

Key themes of feedback on project scope (so far) Agenda ref 6

- There continues to be mixed views about what the scope of a project about extractive activities should be, for example stakeholders have suggested:

	A Do nothing*^	B Improve disclosures (amend IFRS 6)	C Improve consistency and comparability (amend IFRS 6)	D Scope into IAS 38 (replace IFRS 6)*	E Develop a standard for all extractive activities (replace IFRS 6)
Approach	IFRS 6 is working as intended, no problem identified	Amend IFRS 6 to improve disclosures about E&E expenditure (especially accounting policy disclosures)	Amend IFRS 6 to limit accounting policy choices and provide guidance on other areas of IFRS 6 (eg impairment)	Consider E&E expenditure as part of a larger project which would revisit the accounting for intangible assets	Develop accounting requirements for all types of extractive activities, not only E&E expenditure
Implications	No amendments needed	Disclosures could also be extended to include information about reserves and resources	Accounting policy for E&E expenditure developed by Board with additional guidance on other IFRS 6 topics	Eventual withdrawal of IFRS 6	Eventual withdrawal of IFRS 6
Indicative project size	None	Small (large if extended to reserves)	Medium	Large	Large

*Note: these suggested project scopes have limited stakeholder support

^Note: this would mean the research project would conclude that there is no problem to solve

Possible project objectives

- The staff think
 - the suggested project scopes would have different objectives (addressing different issues)
 - a project scope could include several of these objectives and therefore the final project scope need not match those shown on slide 16

Possible objectives

1	Activities in IFRS 6 scope (only)	To provide better information about E&E expenditure and entities' accounting policies for E&E expenditure	To reduce diversity in accounting for E&E expenditure
		To improve the accounting for transactions that occur in the E&E phase but are not specifically covered by IFRS 6 and reduce diversity	To improve the application of IFRS 6 and reduce diversity in respect of other topics covered by IFRS 6 (eg impairment)
2	Reserve and resource information	To provide better information about reserves and resources in the financial statements (consistent and available information)	
3	Activities outside IFRS 6 scope	To develop a standalone standard for all extractive activities to reduce diversity in accounting for these activities and improve the application of other IFRS Standards to these activities	To improve the application of other IFRS Standards to extractive activities for selected transactions, specifically to reduce diversity of accounting practice
4	Other	To account for E&E expenditure and other similar expenditure (eg R&D) consistently	

Key feedback relevant to scope suggestions

1 Activities in IFRS 6 scope (only)

Agenda ref 6

Accounting policies

- Significant **diversity** in the accounting policies developed by entities
- Some oil and gas preparers consider **IFRS 6 helpful**, allowing the industry to adopt similar accounting policies (eg successful efforts)
- Accounting policy **disclosures** are often not clear enough for users to understand how an entity accounts for its material E&E expenditure

Other considerations

- Some consider it **difficult** for the Board to **standardise** current accounting practice for **E&E expenditure**
- **Application challenges identified** (eg impairment assessments, definition of technical feasibility and commercial viability)

Academic evidence mixed, but some suggests...

- **Flexibility** to choose appropriate policy allows for more useful information to be disclosed
- **E&E expenditure is value relevant*** whether it is expensed or capitalised
- **Analysts help reduce information asymmetry** between extractive entities and investors where E&E expenditure high

Mixed views from users, but most agree...

- The **diversity** of accounting policies is **not a significant issue**
- **E&E expenditure information** is important
- Improving the **quality of information** being disclosed about accounting policies for E&E expenditure, and about E&E expenditure in general, would be most helpful

*ie the expenditure was positively associated with stock prices

Key feedback relevant to scope suggestions

2 Reserve and resource information (outside IFRS 6 scope) Agenda ref 6

Usefulness of information

- Most users identify reserve and resource information as being **very important** (often more so than information about E&E expenditure)
- Academic evidence suggests that reserve and resource information is **value relevant**

Regulatory requirements

- Reserve and resource information is generally found **outside the financial statements** and its preparation and disclosure is **subject to jurisdictional regulatory requirements**
- Staff evidence suggests that there is **diversity** in what reserve and resource information is required to be disclosed due to **different jurisdictional regulatory requirements**

Concerns

- Challenges incorporating **third-party systems** (eg CRIRSCO or PRMS) into IFRS Standards
- Concerns from preparers about **costs of including** reserve and resource information **in the financial statements** (eg audit, duplication of information with jurisdictional regulatory requirements)
- Concerns about **comparability and availability of information**, but it appears that most users get the information they need for a majority of the companies they follow

Key feedback relevant to scope suggestions

3 Activities outside IFRS 6 scope

Agenda ref 6

Main staff observations

- Some stakeholders support developing a standard which addresses **all extractive activities**
- Stakeholders identified **challenges** applying particular requirements **in other IFRS Standards** to extractive activities—most challenges are **similar to those faced by entities in other industries** but in some cases may be particularly difficult for entities with extractive activities due to the inherent uncertainty and judgement involved—some diversity in practice identified
- Active or future **Board projects** might consider some of these application challenges (ie projects that are not just focused on extractive activities and which may address these challenges as part of their scope)

Factors to help define the problem

Agenda ref 6

- The staff's initial thinking on the factors the Board could consider to determine whether matters identified by the staff's research should be addressed by this project:

Relevance	Does the matter identified affect all entities (ie is it relevant to all industries) or is it specific to entities with extractive activities?
Scope of IFRS 6	Does the matter identified relate to activities in the scope of IFRS 6?
Diversity	Does the matter identified give rise to diversity in the treatment of similar transactions?
Improvements	Is the matter identified one for which the Board can significantly improve the accounting (including disclosure)?
Effects on users	Does the matter identified have a material effect on users of financial statements?

A grayscale world map is the background for the top half of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also overlaid, forming a grid-like pattern across the map.

Appendix A

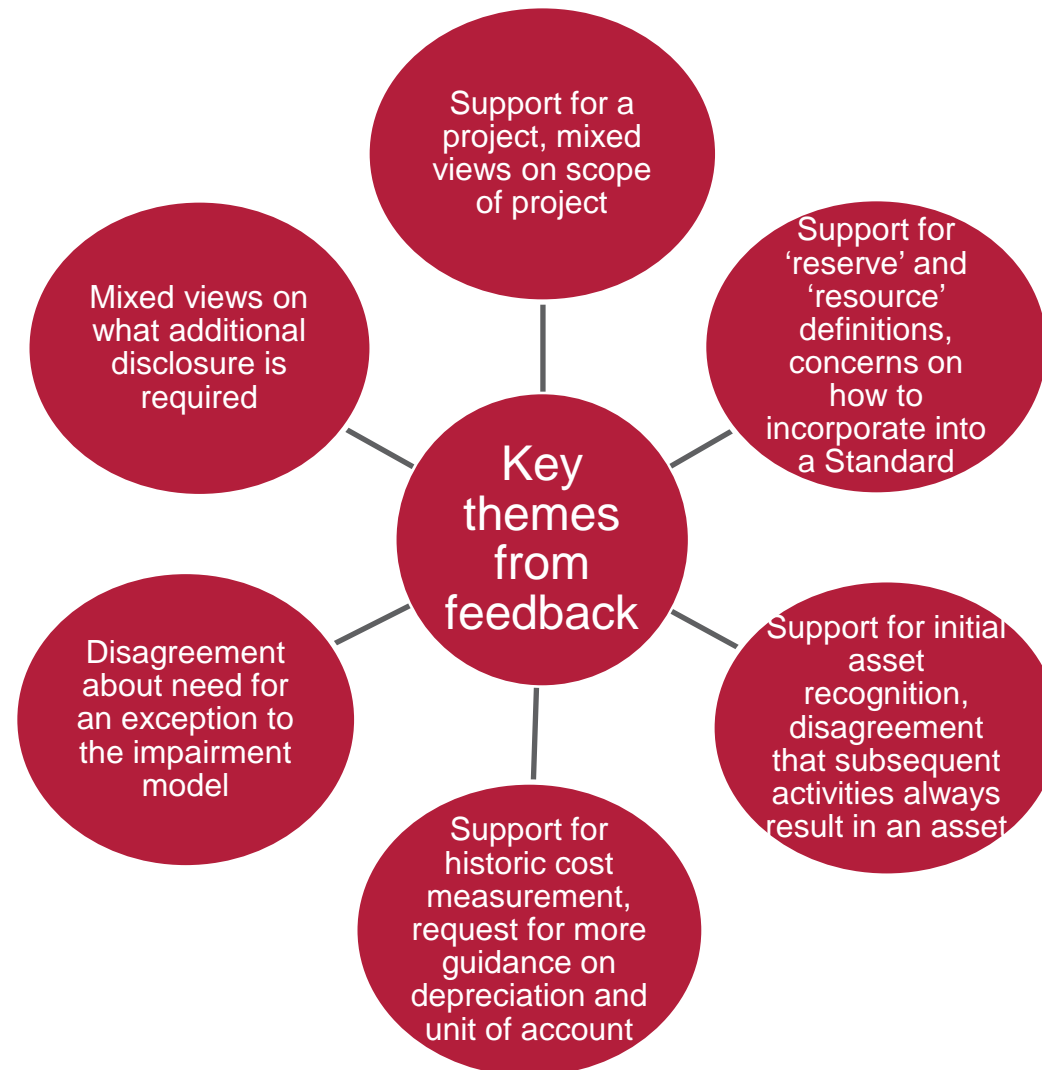
An update on research activities

Feedback from the national standard-setters involved in the 2010 Discussion Paper

Agenda ref 6

- The risk profile of entities, and the industry in which they operate, has changed
- There are new, and more complex, transactions for which, in their view, recognition, measurement and disclosure requirements of existing Standards are not clear
- Many jurisdictions apply their own reserve and resource classification system and these systems have undergone minor amendments since 2010
- Some jurisdictions have implemented their own requirements for the reporting of non-IFRS information outside the financial statements such as payments to governments

See [**March 2019 Agenda Paper 19**](#)



Changes affecting extractive activities since 2010

Agenda ref 6

- The 2018 *Conceptual Framework for Financial Reporting*:
 - E&E expenditure can meet the definition of an asset, but recognition would only be appropriate if it provides primary users with useful information
 - Units of account identified in the Discussion Paper remain relevant, but other units of account may be appropriate
 - Could provide further support for a historical cost measurement basis, but could also identify other measurement bases that are more appropriate
 - New guidance could mean some of the disclosure objectives and specific disclosure proposals in the Discussion Paper are no longer appropriate and the way disclosure objectives are developed and drafted has changed
- Improvements have been made to the reserve and resource classification systems considered in the Discussion Paper, but these do not effect proposals
- The principles of Publish What You Pay have begun to be introduced at a jurisdictional level

See [September 2019 Agenda Papers 19 – 19F](#)

Feedback from other jurisdictions and stakeholder groups

Agenda ref 6

- At its September 2019 meeting, the Board asked staff to perform additional outreach with other jurisdictions that also have significant extractive industries
- A summary of feedback from additional outreach activities was presented to the Board in June 2020 (see [***June 2020 Agenda Paper 19A***](#))
- Key themes from that feedback are:
 - There continues to be mixed views about the potential scope of this project, with some supporting that the project be expanded to all extractive activities
 - There are a range of application challenges related to IFRS 6 and other IFRS Standards, but not all respondents expect standard-setting as a response to these challenges
 - There is diversity between jurisdictional requirements related to reserve and resource classification systems, but there are mixed views whether IFRS Standards should require the disclosure of reserve and resource information
 - Voluntary disclosures, which go beyond the requirements of IFRS Standards, are common

Applying IAS 16 and IAS 38 to exploration and evaluation expenditure

Agenda ref 6

- At its July 2020 meeting, the Board considered how activities within the scope of IFRS 6 would be accounted for in the absence of that Standard, applying the requirements in IAS 16 and IAS 38 (see [**July 2020 Agenda Paper 19A**](#))
- Research findings indicate that, in the absence of IFRS 6, applying the requirements in IAS 16 and IAS 38, a majority of E&E expenditure would likely be expensed

- At its July 2020 meeting, the Board considered academic evidence on extractive activities after a comprehensive search for academic papers on topics relevant to IFRS 6 (see [July 2020 Agenda Paper 19B](#))
- Key takeaways from that evidence are:
 - Accounting policies developed applying requirements of IFRS 6 are diverse
 - E&E assets of oil and gas entities are value relevant*, however the evidence on the value relevance of E&E assets of minerals entities is mixed
 - Disclosures of information about reserves and resources is diverse and improving disclosures is associated with stronger market reaction to reserve announcements
 - Analysts develop more private information and produce more accurate forecasts for extractives entities with more E&E expenditure
 - Some researchers believe the extractive industries influenced the IFRS 6 standard-setting process

*ie the assets were positively associated with stock prices

- At its September 2020 meeting, the Board considered further the diversity in (see [**September 2020 Agenda Paper 19A**](#)):
 - The reserve and resource classification systems used; and
 - The regulatory requirements for the disclosure of reserve and resource information between jurisdictions
- Key findings indicate that:
 - Most jurisdictions have regulatory requirements that specify the application of a particular reserve and resource classification system that generally aligns to the widely accepted reserve and resource classification systems of CRIRSCO (for minerals) and PRMS (for oil and gas)
 - However, regulatory requirements on the disclosure of reserve and resource information are diverse

Reserve and resource reporting requirements (cont.)

Agenda ref 6

- Based on a selection of jurisdictions, research indicated:
 - Regulatory requirements for regular disclosure of reserve and resource information appear to be more common for oil and gas entities than for minerals entities
 - Regulatory requirements generally focus on reporting of reserve information, whereas reporting of resource information is more discretionary, and the sub-classifications reported varies between jurisdictions
 - Some jurisdictions do not require (or have very limited requirements for) the disclosure of reserve and resource information
 - Generally the information required to be disclosed is provided outside the financial statements, but some national standard-setters have specified requirements for disclosure of some reserve and resource information to be part of the financial statements

Accounting policy diversity

Agenda ref 6

- At its October 2020 meeting, the Board considered further (see [October 2020 Agenda Paper 19A](#)):
 - Whether there are jurisdictional accounting requirements that differ from the requirements in IFRS 6; and
 - The diversity of accounting policies developed applying the requirements of IFRS 6
- Key findings indicate:
 - Accounting policies developed applying IFRS 6 are diverse and the source of this diversity is generally due to (i) the extent (how much and when) to which the entity recognises E&E expenditure as an asset; and (ii) the unit of account an entity decides to apply
 - Some jurisdictions require entities to apply a specific accounting policy (eg use of defined ‘area of interest’ as the unit of account in Australia)
 - Industry trends are present (eg successful efforts and full-cost methods primarily adopted in the oil and gas industry; accounting policies which expense most E&E expenditure are more likely to be adopted by minerals entities, although capitalisation policies are more common)

The life-cycle of a minerals and an oil and gas property

Agenda ref 6

- At its February 2021 meeting, the Board held an educational session which explained further extractive activities in the minerals and oil and gas industries (see [February 2021 Agenda Paper 19A](#))
- As part of this session, the Board also considered common financial reporting challenges associated with each phase in the life-cycle of a minerals or an oil and gas property and some of the reasons for those challenges
- Key takeaways are:
 - Significant uncertainty exists at all stages of the life-cycles—minerals and oil and gas industries are inherently risky, with complex and capital intensive projects. Complex risk-sharing arrangements are common and significant judgements and assumptions are often necessary as a result of entities' day-to-day operations
 - Due to the amount and nature of significant judgements and assumptions present in accounting for all types of extractive activities, there can be a perceived lack of financial statement consistency and comparability (which is exaggerated in the E&E phase where IFRS 6 is non-prescriptive)

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