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IFASS meeting

Project	Extractive Activities		
Paper topic	Project update		
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Overview

1. This paper is structured as follows:
 - (a) Background (paragraphs 2–4);
 - (b) Update on research activities (paragraphs 5–6);
 - (c) Key themes of feedback so far (paragraphs 7–11);
 - (d) Next steps (paragraphs 12–16);
 - (e) Appendix A—Questions for IFASS members.

Background

2. The International Accounting Standards Board (Board) commenced its research project on Extractive Activities in 2018 by asking the National Standard-setters, whose staff helped develop the 2010 Discussion Paper *Extractive Activities* (Discussion Paper)—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. Additionally, those National Standard-setters were asked:
 - (a) how these changes might affect the research findings of the Discussion Paper; and

- (b) if, as a result of these changes, they recommend that the Board consider performing additional research.
3. The Board is gathering evidence to help it decide whether to start a project to develop proposals to replace or amend IFRS 6 *Exploration and Evaluation of Mineral Resources*. IFRS 6, when issued, was intended to be a temporary Standard. The Board is considering feedback from the Discussion Paper as part of that evidence.
 4. IFRS 6 addresses only the accounting for expenditure incurred in relation to exploration and evaluation activities whereas the Discussion Paper’s scope included all extractive activities. For example, the Discussion Paper also considered development and production activities.

Update on research activities

5. At its March 2019 meeting, the Board received a summary of the feedback from the National Standard-setters (see [March 2019 Agenda Paper 19](#)).
6. At its September 2019 meeting, the Board received an update on research activities being performed by staff (see [*September 2019 Agenda Papers 19A-F*](#)). In particular, staff summarised their progress in relation to the following areas:
 - (a) possible effects of IFRS Standards and other Board documents which have been issued since 2010 (eg 2018 *Conceptual Framework of Financial Reporting*) on the Discussion Paper proposals and feedback;
 - (b) discussions with users of financial statements of entities with extractive activities to help the Board identify the problems, if any, it needs to address in the project;
 - (c) specific issues applying IFRS Standards within the extractives industry as highlighted by stakeholders; and
 - (d) other related non-financial reporting requirements for entities operating in the extractives industry.

Key themes of feedback so far

National Standard-setters

7. In response to the Board's request, the National Standard-setters consulted identified from their research activities that:
 - (a) the risk profile of the entities, and the industry in which they operate, has changed since 2010;
 - (b) new, and more complex, transactions for which the recognition, measurement and disclosure requirements of existing accounting Standards, in their view, are not clear;
 - (c) each jurisdiction currently applies their own reserves and resource classifications system and these systems have undergone minor amendments since 2010; and
 - (d) some jurisdictions have introduced their own reporting requirements for information outside the IFRS Standards such as payments to governments and sustainability reporting.
8. Overall, the staff believe that the Discussion Paper and the feedback received on the Discussion Paper remain a valid starting point for the Board as it starts its new research project on Extractive Activities. However, the changes highlighted by the National Standard-setters will also be considered by the Board in combination with the Discussion Paper.

Users

9. To help the Board identify what, if any, problems need to be addressed by the project, users were asked to provide feedback on a range of issues, including what information they need to make investment or lending decisions for entities with extractive activities and whether that information is always consistently available. In particular, users identified that:
 - (a) there is a lack of consistency in the:

- (i) recognition and measurement of exploration and evaluation expenditure which effects comparability in financial statements between entities within the extractives industry and also between entities within the extractives industry and entities in industries with similar types of expenditure (eg research and development expenditure in the pharmaceuticals industry); and
 - (ii) the recognition and measurement of non-IFRS information, such as reserve and resource reporting, which affects comparability of information which is used as inputs into valuation models;
- (b) non-IFRS information outside the financial statements (eg reserve and resource reporting) is required to complement and enhance users' understanding of the financial statements;
 - (c) the focus for many users is primarily on cash measures in the financial statements, rather than on the balance sheet;
 - (d) the effects of climate-change and environmental issues and obligations of entities operating within the extractives industry is not clearly reported in financial statements; and
 - (e) information reported in the financial statements should be more granular, for example, users suggested disclosing information about extractive activities by property.

Preparers

10. Preparers were asked to provide feedback on a range of issues, including whether the issues identified in the Discussion Paper were still relevant and whether there were new issues they think the Board should address in a project on Extractive Activities. In particular, preparers:
 - (a) identified specific application issues for which they thought further guidance was required—for example, how existing IFRS Standards should be applied to complex transactions such as:

- (i) risk sharing arrangements and conveyances (eg production sharing contracts and farm-out agreements¹);
 - (ii) assets that are simultaneously in development and production phases;
 - (iii) government imposts; and
 - (iv) application of new IFRS Standards (eg IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*);
- (b) identified IFRS 6 application issues—for example, assessing impairment of costs capitalised applying IFRS 6 and identifying an appropriate unit of account;
- (c) explained that entities, particularly in the oil and gas industry, find IFRS 6 helpful as it enables them to maintain accounting policies for exploration and evaluation expenditure that are consistent with US GAAP, helping comparability with oil and gas entities that apply US GAAP; and
- (d) highlighted additional information being requested by investors—for example, reserve and resource quantities, alternative performance measures and cash costs and cash movements from period-to-period.

Key themes of feedback on project scope

11. These stakeholders also provided feedback on the potential scope of a research project on Extractive Activities, identifying the following options that the Board should consider:
- (a) develop a disclosure-only standard for extractive activities (eg using the Board’s Targeted Standards-level Review of Disclosures project to develop a disclosure-only standard that scopes in all extractive activities);

¹ A farm-out agreement involves a venturer (the ‘farmor’) assigning a working interest in an oil and gas or mining property to another party (the ‘farmee’) often in exchange for an agreement by the farmee to pay both its own share, and that of the farmor, of future development costs of the property.

- (b) amend IFRS 6 to improve comparability and consistency of recognition, measurement and disclosure requirements;
- (c) withdraw IFRS 6 and the scope exclusions in specified IFRS Standards for exploration and evaluation expenditure, and account for all extractive activities using existing IFRS Standards (some stakeholders also suggest including extractive activities in a broader scope project which would revisit IAS 38 *Intangible Assets*);
- (d) develop an industry-specific standard which would address accounting for all extractive activities; or
- (e) do nothing because some say there are no indications that users are not adequately managing the diversity of practice in entities operating in the extractives industry.

Next steps

12. The Board notes that feedback has, to date, been requested only from the National Standard-setters whose staff helped to develop the Discussion Paper (Australia, Norway, Canada and South Africa). There are many other jurisdictions which also have significant extractive industries, and which apply IFRS Standards, some of which began applying IFRS Standards after 2010.
13. Furthermore, while the Board have obtained feedback from a range of preparers which operate within the extractives industry, limited feedback has been received from users of financial statements.
14. Consequently, the Board is planning to perform additional outreach with other jurisdictions and stakeholders which will help to provide the Board with a more complete analysis on extractive activities at a future Board meeting. For those IFASS members who wish to participate, questions have been included in Appendix A.
15. Education sessions are also being planned for early 2020 to provide the Board with further explanation of the key features of extractive activities (exploration,

evaluation, development, production and decommissioning) along with the main accounting issues that are associated with these key features.

16. The Board will then decide on the scope of the Extractive Activities research project.

Appendix A—Questions for IFASS members

- A1. The Board is seeking additional feedback from stakeholders to help determine whether it should commence a research project to replace or amend IFRS 6.
- A2. The Board is asking stakeholders to provide the following information about extractive activities within their jurisdiction:
- (a) Question 1—How significant is the extractives industry to your jurisdiction? For example, how significant is the extractives industry to your jurisdiction’s GDP?
 - (b) Question 2—What are the main types of entities with extractive activities that operate in your jurisdiction:
 - (i) state-owned;
 - (ii) privately-owned;
 - (iii) local: listed locally;
 - (iv) local: listed overseas;
 - (v) foreign: listed locally; or
 - (vi) foreign: listed overseas?
 - (c) Question 3—Do those entities identified in Question 2 apply IFRS Standards?
 - (d) Question 4—What reserve and resource classification system is used in your jurisdiction?
 - (e) Question 5—What, if any, are the national or stock exchange regulatory requirements in your jurisdiction to disclose information on extractive activities, including reserve and resource disclosures?
 - (f) Question 6—What financial reporting issues are you aware of in relation to extractive activities for:
 - (i) preparers—eg in what areas are IFRS Standards difficult to apply?
 - (ii) regulators—eg are any areas of IFRS Standards difficult to enforce?
 - (iii) users—eg is relevant information consistently available?
 - (g) Question 7—Are there other industries which have been established in your jurisdiction that you consider should be included in the scope of extractive activities?
 - (h) Question 8—Are there any recent developments in the extractives industry that you want to make the Board aware of?

(i) Question 9—Do you think there is a need for the Board to undertake a standard-setting project on extractive activities? If so, why? What matters do you think the Board should address in the project?

A3. Should you wish to participate, the Board asks that **feedback be submitted to project staff no later than 31 December 2019.**

A4. Contact details of the project team are located on the cover page of this paper.