

STAFF PAPER

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Emerging Economies Group

Project	Extractive Activities		
Paper topic	Feedback summary		
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Objective

1. 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* (Discussion Paper), to inform the Board of any significant developments in extractive activities since the publication of the Discussion Paper. Additionally, the 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.
2. This paper provides an analysis of the feedback received from the National Standard-setters, along with additional outreach performed by staff. Most feedback was consistent across geographical regions.
3. To help us develop our future papers for upcoming Board meetings, we are asking the EEG for its initial thoughts on the feedback received (see *Agenda Paper 5*).

Overview

4. This paper is structured as follows:
 - (a) Background (paragraphs 5-6);
 - (b) Key messages (paragraphs 7-8);
 - (c) National Standard-setters (paragraphs 9-24);
 - (d) Other feedback received (paragraphs 25-29);
 - (e) Next steps (paragraphs 30-31).

Background

5. As a result of the 2015 Agenda Consultation the research project was added to the research pipeline (see *May 2016 Agenda Paper 24D*).
6. During 2018, the Board commenced work on the research project and the Board is currently:
 - (a) reviewing feedback from the Discussion Paper; and
 - (b) gathering additional evidence;to help it decide whether to develop proposals to replace or amend IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Key messages

7. Overall, most National Standard-setters consulted identified that:
 - (a) the markets for minerals and oil and gas have become more volatile than they were in 2010;
 - (b) the risk profile of entities operating in the extractives industry has changed;
 - (c) entities operating in the extractives industry are engaging in new and more complex transactions whereby the current accounting requirements may not be not clear;
 - (d) increasingly, entities operating in the extractives industry are engaging in unconventional extractives activities;

- (e) the reporting of other information, such as payments to governments and sustainability reporting, is being mandated at a jurisdictional level; and
 - (f) there have been minor amendments to the relevant reserves and resource definitions within each jurisdiction.
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 summarised in this paper, in combination with the Discussion Paper, should also be considered by the Board.

National Standard-setters

9. Staff contacted all National Standard-setters that had been involved in the production of the Discussion Paper (Australia, Canada, Norway and South Africa). The National Standard-setters were asked to provide an update on the extractive activities within their jurisdictions through a series of five questions:
- (a) *Question 1*—have there been significant changes in extractive activities that have given rise to:
 - (i) changes to, or new, accounting policies used by entities;
 - (ii) new financial reporting issues; or
 - (iii) changes in the risk profile of entities?
 - (b) *Question 2*—have there been changes in activities such that new industries have been established in your jurisdiction that you consider should be included in the scope of extractive activities?
 - (c) *Question 3*—have there been changes in the reserves and resources classification systems used by entities in your jurisdiction that have resulted in a significant change to the reserves and resources calculated by those systems?
 - (d) *Question 4*—have there been significant changes in the regulatory requirements in your jurisdiction to disclose information on extractive activities, including reserve and resource disclosures? What information is now (or no longer) required?

- (e) *Question 5*—are there any other significant changes in the extractives industry that you want to make the Board aware of, including in other jurisdictions if you are aware of any such changes?

Summary of feedback received

10. In addition to the update requested, the staff of the National Standard-setters provided additional comments on the direction they believe the project should take. These comments have not been included in the analysis below. Instead, these comments will be included as part of future staff analysis on the proposed scope of the Extractive Activities project at a future Board meeting when all other relevant information can be considered.
11. National Standard-setters that responded identified the following key areas of the extractives industry which have changed since the Discussion Paper was issued in 2010:
- (a) the risk profile of the entities, and the industry in which they operate, has changed (paragraph 12);
 - (b) new, and more complex, transactions for which the recognition, measurement and disclosure requirements of existing accounting Standards, in their view, are not clear (paragraphs 13-14);
 - (c) each jurisdiction currently applies their own reserves and resources classification system and these systems have undergone minor amendments since 2010 (paragraphs 15-17); and
 - (d) some jurisdictions have implemented their own reporting requirements for information outside the IFRS Standards such as payments to governments and sustainability reporting (paragraphs 18-19).

Risk profile

12. All respondents noted that the risk profile of extractives industry entities has become more complex. Respondents provided a varying range of reasons why the industry, and those entities which operate in it, are subject to greater risk. However, the following circumstances were identified by almost all respondents:

- (a) the increasing use of unconventional extractive activities (for example, Coal, Seam and Gas (CSG) mining, fracking, etc);
- (b) the increase of new and more complex transactions (for example, alternative finance arrangements, farm-out arrangements and mergers and acquisitions);
- (c) an increase in price volatility of minerals and oil and gas; and
- (d) increased politicisation of the industry.

Complexity of transactions

13. All respondents stated that they have noted an increasing trend for the use of new and more complex transactions whereby, in their view, the current accounting requirements are not clear. Respondents provided the following examples:

- (a) complex joint arrangements involving the purchase of all or a portion of a mine's production for both an upfront payment and a price (or fixed percentage) per ounce of resource delivered;
- (b) determining a unit of account when accounting for a sale of a working interest;
- (c) farm-out arrangements; and
- (d) recognition and measurement of property which has not previously been explored.

14. A few respondents also noted that the implementation of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* has and will create changes and challenges for the extractives industry. However, as noted by one respondent, these issues should be resolved within the framework of the existing Standards rather than through a separate extractives Standard.

Definitions of reserves and resources

15. Each respondent noted that there was a legal requirement in place to use a specific reserves and resources classification system within their jurisdiction. These included:

- (a) Norway—the reserves and resources classification system is set by the Norwegian state and closely resembles the Petroleum Resource Management System (PRMS);

- (b) Canada—the disclosure of reserves and resources are mandated by Canadian securities regulations. Mining entities are required to apply the reserves and resources classifications in the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards on *Mineral Resources and Mineral Reserves*. Oil and gas entities are required to apply the reserves and resources classifications used in the Canadian Oil and Gas Evaluation Handbook; and
 - (c) Australia—disclosures about reserves and resources are mandated by the Australian Stock Exchange (ASX) Listing Rules. The ASX Listing Rules require the application of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Australian JORC Code) for reporting on mining activities and the PRMS for reporting on oil and gas activities.
16. Some of these respondents noted that there have been minor updates made to their relevant reserves and resources classification systems. For example:
- (a) Canada’s CIM definitions of reserves and resources have been aligned with the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) definitions;
 - (b) Australia’s JORC Code was revised to improve the quality of reporting; and
 - (c) minor changes to the PRMS were also noted.
17. One respondent noted that since 2010 the Australasian Code for Public Reporting of technical assessments and valuations of mineral assets (the VALMIN Code) has been issued. The VALMIN Code sets out the requirements for the technical assessment and valuation of mineral assets and securities for independent expert reports and provides guidance for petroleum assets and securities.

Reporting of other information outside IFRS requirements

18. Most respondents noted that additional jurisdictional reporting requirements, outside IFRS, have been implemented in relation to sustainability, climate or payments to governments. For example:
- (a) the European Union requires those entities operating within the extractives industry to disclose ‘Payments to Government’ for extractive activities; and

- (b) in Canada, the *Extractive Sector Transparency Measures Act* was introduced in 2015 and establishes reporting and transparency obligations for the extractives sector.
19. However, these respondents noted that there was an increasing trend towards integrated reporting in order to avoid duplication of information.

Other comments

20. Almost all respondents stated that, in their view, the main concerns raised by their constituents were not related to the current IFRS 6, but rather to the application of other existing Standards to increasingly complex transactions occurring within the extractives industry (see paragraph 13).
21. One respondent noted that additional disclosures on extractive activities are required by Chapter 5 of the ASX Listing Rules.
22. Two respondents noted that non-GAAP measures were now more prevalent, one giving the example of the World Gold Council all-in cash costs and all-in sustaining costs that are regularly used in the industry.
23. One respondent mentioned that in their jurisdiction the number of entities had increased as traditional oil majors had reduced their portfolios with a consequential increase in smaller players with few or sometimes single licences. However, another respondent observed the opposite in their jurisdiction whereby the number of issuers had reduced due to bankruptcies and consolidations in the industry since 2010.
24. In addition, these respondents noted that, through their own outreach performed, feedback was primarily weighted towards requests for additional disclosure rather than issues with recognition and measurement.

Other feedback received

25. The staff have also performed additional outreach with various stakeholders. The feedback from these stakeholders is consistent to that received from the National Standard-setters.
26. One stakeholder noted that the reserves and resources classification system in South Africa, the South African Code for the Reporting of Exploration Results, Mineral

Resources and Mineral Reserves (the SAMREC Code) had changed since 2010 and was now consistent with CRIRSCO.

27. This stakeholder also noted that listed entities are required to issue an integrated report following changes to the listing requirements in South Africa.
28. Another stakeholder identified that there is now a greater focus on low carbon initiatives which has resulted in the feasibility of estimated future extractions of minerals and oil and gas being questioned.
29. This stakeholder also expressed concern over the lack of any tagging / XBRL in the IFRS Taxonomy for IFRS 6 and minerals and oil and gas disclosures.

Next steps

30. Based on the analysis, staff propose further research into the effects of the following topics on the Discussion Paper and project proposals:
 - (a) 2018 *Conceptual Framework for Financial Reporting*;
 - (b) new Standards and amendments, including other Board publications;
 - (c) changes to reserves and resources classifications and definitions; and
 - (d) changes to transparency and sustainability reporting, for example, payments to governments.
31. Staff analysis on each topic will be brought back at a future Board meeting to help the Board determine the scope of the Extractive Activities project.