
IASB® Meeting

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Project	Extractive Activities
Topic	Analysis of disclosure suggestions
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Purpose and structure

1. As explained in Agenda Paper 19, this paper sets out our analysis and recommendations of whether the International Accounting Standards Board (IASB) should develop requirements or guidance to improve the information an entity discloses about its exploration and evaluation (E&E) expenditure and activities.
2. This paper is structured as follows:
 - (a) Background (paragraphs 3–5);
 - (b) Analysis of disclosure suggestions:
 - (i) Information to help understand how entities account for E&E expenditure (paragraphs 7–28);
 - (ii) Information to help compare entities with different accounting policies for E&E expenditure (paragraphs 29–40);
 - (iii) Information to help understand the risks and uncertainties of entities' E&E activities (paragraphs 41–59); and
 - (iv) Other suggestions to improve information about E&E expenditure and activities (paragraphs 60–63);

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- (c) Summary of staff recommendations (paragraph 64); and
 - (d) Question for the IASB.

Background

3. In [September 2022](#) the IASB decided to explore three aspects of information about E&E expenditure and activities with stakeholders (see [Agenda Paper 19C](#) to the IASB's September 2022 meeting):
 - (a) whether and how entities could disclose better information about the different accounting policies entities apply to E&E expenditure specifically in relation to:
 - (i) unit of account;
 - (ii) nature and type of E&E expenditure; and
 - (iii) when capitalisation starts and stops;
 - (b) whether information about cumulative E&E expenditure could be disclosed to help compare entities that apply different accounting policies for E&E expenditure; and
 - (c) whether information about the risks and uncertainties associated with E&E expenditure and activities could be disclosed.
4. In developing these disclosure suggestions, we reviewed:
 - (a) disclosure-related feedback from research conducted between 2018–2021 with stakeholders (see [Agenda Paper 19A](#) to the IASB's September 2022 meeting);
 - (b) relevant academic literature (see [Agenda Paper 19A](#) to the IASB's September 2022 meeting);
 - (c) relevant jurisdictional requirements and other proposals for providing information about E&E expenditure and activities (see [Agenda Paper 19A](#) to the IASB's September 2022 meeting); and

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- (d) a sample of entities' annual filings to understand what information entities disclose about E&E expenditure and activities (see [Agenda Paper 19B](#) to the IASB's September 2022 meeting).
5. We conducted outreach to discuss the disclosure suggestions (see [Agenda Paper 19](#) to the IASB's July 2023 meeting). The feedback from these outreach activities was discussed with the IASB at its [July 2023](#) meeting.

Analysis of disclosure suggestions

6. We present our analysis of the three disclosure suggestions in paragraph 3, as well as other suggestions we heard during the outreach, as follows:
- (a) Information to help understand how entities account for E&E expenditure (paragraphs 7–28);
 - (b) Information to help compare entities with different accounting policies for E&E expenditure (paragraphs 29–40);
 - (c) Information to help understand the risks and uncertainties of entities' E&E activities (paragraphs 41–59); and
 - (d) Other suggestions to improve information about E&E expenditure and activities (paragraphs 60–63).

Information to help understand how entities account for E&E expenditure

Disclosure suggestion

7. There is diversity in the accounting policies entities apply to E&E expenditure (see previous research included in [Agenda Paper 19A](#) to the IASB's October 2020 meeting and [Agenda Paper 19B](#) to its July 2020 meeting).

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8. In [September 2021](#) the IASB decided not to address the diversity in accounting policies. The IASB decided it lacked sufficient evidence to suggest the benefits of reduced diversity in accounting for E&E expenditure would outweigh the costs. However, it decided to explore developing requirements or guidance to improve the information an entity discloses about its E&E expenditure and activities to provide more useful information to users. In making these decisions the IASB considered that transparency of information about E&E expenditure, in particular the accounting policies for E&E expenditure, was important because of the diversity and the significant judgements involved.
 9. Our research identified three features of accounting policies for E&E expenditure that are sometimes unclear and could be improved (see paragraphs 7–37 of [Agenda Paper 19C](#) to the IASB’s September 2022 meeting):
 - (a) unit of account;
 - (b) nature and type of E&E expenditure; and
 - (c) when capitalisation starts and stops.

Summary of feedback

10. [Agenda Paper 19A](#) to the IASB’s July 2023 meeting contains a detailed summary of the feedback for this topic.
11. Overall, feedback on information about how an entity accounts for its E&E expenditure suggested that the information would not be costly to disclose, however the benefits of disclosing this information could be marginal with several stakeholders questioning whether it was material information.
12. Although most users said better information about how an entity accounts for its E&E expenditure could be useful, there were questions about the extent of the usefulness. The usefulness of the information depended on the size and type of entity (see paragraph 13 of [Agenda Paper 19A](#) to the IASB’s July 2023 meeting for more detailed information). For example, those users that review a broader range of entities

would likely find the information more useful than users who only focus on, for example, junior extractive entities.

13. Preparers said it would be possible to disclose additional information about how entities account for E&E expenditure however, they were sceptical about how useful this information would be, questioning whether it is material information.
14. Auditors had mixed views on the usefulness of disclosing additional information about how an entity accounts for E&E expenditure, whereas regulators were generally supportive of disclosing this additional information, providing more clarity in light of the diversity.

Analysis

15. We did find evidence of benefits of improving the information entities disclose about how they account for E&E expenditure. One regulator said additional information about entities' accounting policies for E&E expenditure (more transparency) could be helpful given the diversity of those accounting policies, even if users discount this information.
16. An academic study we reviewed referred to a long line of literature suggesting accounting flexibility is not misleading when transparent, but rather conveys an important signal about management's (and the auditor's) internal assessment of future economic benefits.¹
17. Feedback from users highlights that improved information about how entities account for E&E expenditure would be useful information for users of financial statements of particular entities as explained in paragraph 12.
18. We think the IASB could develop further requirements or guidance using the research we have performed to date on accounting policies for E&E expenditure in the project.

¹ Ferguson, A., S.Kean and G.Pundrich (2020), 'Factors Affecting the Value-Relevance of Capitalized Exploration and Evaluation Expenditures under IFRS 6', *Journal of Accounting, Auditing and Finance* 1-24.

We think this could follow a relatively simple approach, similar to the one used in IFRS 4 *Insurance Contracts*, whereby the IASB provided some examples of items that an entity might consider for disclosure in its accounting policies for insurance contracts (see paragraph IG17 of the Guidance on Implementing IFRS 4).

19. Feedback from preparers suggests disclosing additional information about how an entity accounts for E&E expenditure would be possible and simple to do—for example, one preparer said this would only involve adding one or two sentences to the accounting policy disclosure and would not be a problem.
20. We think the cost to provide this additional information would be intrinsically low due the nature of the change required in entities' financial statements—it would be a one-off change to the accounting policy and an entity should already have the information required.
21. However, the feedback indicates the benefits are likely to be marginal. For example, one national standard-setter reported that in their jurisdiction the extractives market has a large number of 'small-cap' (junior) entities, a moderate number of mid-sized entities and a few 'large-cap' (major) entities. As explained in paragraph 13 of [Agenda Paper 19A](#) to the IASB's July 2023 meeting, users of financial statements of junior and major extractive entities are unlikely to consider this additional information to be material. Therefore, it is unlikely to be material information for many entities.
22. The user feedback on the usefulness of additional information about how an entity accounts for its E&E expenditure is similar to the feedback the IASB obtained on whether it should consider reducing the diversity in the accounting policies for E&E expenditure (see [Agenda Paper 19C](#) to the IASB's September 2021 meeting) for which the IASB decided there was not compelling enough evidence to explore amending IFRS 6 *Exploration for and Evaluation of Mineral Resources*.
23. We think standard-setting when there is only a marginal benefit would not be a good use of the IASB's or stakeholders' resources.

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24. Paragraph 24 of IFRS 6 requires an entity to disclose its accounting policies for E&E expenditure, including the recognition of E&E assets. Although there are no further requirements, we think if material information about how an entity accounts for E&E expenditure is not being disclosed, this is an application issue—regulators one national standard-setter spoke to said cases of poor information about accounting policies for E&E expenditure are a compliance issue rather than a standard-setting issue. Our review of academic evidence (see paragraph 19 of [Agenda Paper 19A](#) to the IASB’s September 2022 meeting) highlighted that many academic studies assessed compliance with the disclosure requirements of IFRS 6. These studies generally concluded that compliance with those requirements is low or could be improved.
25. We note that, following feedback that more guidance was needed to help entities decide what accounting policy information should be disclosed, the IASB issued in February 2021 amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. The amendments to IAS 1 are applicable for annual reporting periods beginning on or after 1 January 2023. The objective of the amendments is to help entities make more effective accounting policy disclosures and this therefore might help to improve the information entities disclose about their accounting policies for E&E expenditure.
26. Further, the IASB has considered disaggregation of information in its Primary Financial Statements project. E&E expenditure would be an example of expenses classified by function—operating expenses aggregated according to the activity to which the consumed resource relates. If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss and one of those line items is E&E expenditure, an entity would need to provide a narrative description of the nature of expenses included in E&E expenditure. This would be similar information to some of the information (nature and type of E&E expenditure) that we have been considering as part of this disclosure suggestion.

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27. We also think discussion in a project summary (see Agenda Paper 19B) of the improvements to the information about how entities account for E&E expenditure that the IASB considered, could help provide some indication of the type of information that could be useful and that entities might consider including in their disclosures of accounting policies for E&E expenditure if judged to be material information.
28. On balance, we do not think there is compelling evidence to pursue this suggestion and therefore, we recommend that the IASB should not pursue developing requirements or guidance to disclose more information about how entities account for E&E expenditure.

Information to help compare entities with different accounting policies for E&E expenditure

Disclosure suggestion

29. One of the fundamental differences in accounting policies for E&E expenditure is whether an entity capitalises E&E expenditure as an E&E asset (a capitalisation policy) or whether an entity expenses its E&E expenditure in the period it incurs that expenditure (an expense policy). The Statements of Financial Position and Statements of Comprehensive Income of entities applying these two broad types of accounting policy for E&E expenditure could significantly differ.
30. In its September 2022 meeting the IASB discussed a suggestion to require an entity to disclose cumulative spend information—information about cumulative E&E expenditure incurred by an entity on its current E&E activities in aggregate (see paragraphs 38–45 of [Agenda Paper 19C](#) to the IASB’s September 2022 meeting). Such information could help users track E&E expenditure on a cumulative basis and compare entities with different accounting policies.

Summary of feedback

31. [Agenda Paper 19B](#) to the IASB's July 2023 meeting contains a detailed summary of the feedback for this topic.
32. Overall, feedback about information to help compare entities with different accounting policies was mixed.
33. Most users said cumulative spend information would be useful, however they provided different reasons why, indicating it was not just useful for comparison purposes.
34. Most preparers said cumulative spend information would likely not be useful and they also had mixed views on the costs of disclosing this information. Auditors also had concerns on the cost of providing this information and said the information could only be disclosed prospectively and only if cumulative costs to date are required to be disclosed so that an entity need not consider impairment.
35. Regulators were generally supportive of this suggestion—cumulative spend information would be useful and entities should be able to disclose this information. One national standard-setter reported that stakeholders said junior entities without significant revenue are required to report this information in their jurisdiction.

Analysis

36. Although information about the cumulative E&E spend might be helpful to compare entities with different accounting policies, it is likely that its usefulness would also depend on the types of entity users are considering (see paragraph 21). For example, users of financial statements of junior entities are more interested in the future prospects of these entities—whether they will continue as a going concern or whether they have enough cash to continue exploring—and for majors, E&E expenditure might not be material so these entities might not disclose the cumulative spend information even if it was required.

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37. There are also questions about how useful comparing this information for different entities would be. For example, stakeholders made the following comments in the outreach:
- (a) activities are not comparable—for example, the costs associated with deepwater oil and gas exploration are significantly different to the costs of onshore exploration;
 - (b) users tend to compare entities with similar accounting policies; and
 - (c) cumulative spend information is not comparable to the information about E&E assets—because the cumulative E&E amount would not be subject to impairment unlike E&E assets.
38. There may be other benefits of providing this information, however we do not think we have found evidence of a specific user need for this information—we think the feedback simply indicates what users could use the information for if it were provided.
39. Feedback from stakeholders also highlighted a number of concerns with disclosing this information including:
- (a) Cost—requiring cumulative spend information to be disclosed would require entities who have chosen a policy to expense their E&E expenditure to incur additional costs, similar to costs incurred by entities who choose to capitalise their E&E expenditure. The information would be subject to internal controls and audit and these costs would be incurred purely for financial reporting purposes for these entities.
 - (b) Availability of information—if the disclosure requirement were applied retrospectively and entities have old and long running projects it might be difficult for entities to obtain the information.
 - (c) Requirement for guidance—there would likely be a need for guidance on when a project is considered to be a ‘current project’ and therefore included in (or

removed from) the cumulative spend information, and what expenditure to include in the cumulative spend amount.

40. Overall, we think there is not compelling evidence that the suggestion would significantly improve comparability at a reasonable cost. We therefore recommend that the IASB should not pursue developing requirements or guidance to disclose information to help compare entities with different accounting policies for E&E expenditure.

Information to help understand the risks and uncertainties of entities' E&E activities

Disclosure suggestion

41. In its September 2022 meeting, the IASB discussed a suggestion to require disclosure of risk and uncertainty information (see paragraphs 46–61 of [Agenda Paper 19C](#) to the IASB's September 2022 meeting). Such information could help users assess an entity's prospects for future cash flows, helping them to assess the magnitude of those cash flows, the timing and the factors affecting the probability of their occurrence.
42. In the initial feedback gathered in the project, one national standard-setter said IFRS 6 was issued as an interim standard and does not require disclosures to enable users to understand the risks and uncertainties of extractive activities. In their view, further work was needed to assess whether entities should be required to disclose better information about E&E activities. The initial feedback suggested users find information about E&E activities more important than the accounting for E&E activities.
43. We explored a suggestion to provide risk and uncertainty information that could help users understand:
- (a) level of uncertainty—stage of activities, whether the activities are on a brownfield site or a greenfield site;

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- (b) operational risks—challenges due to the nature of the activities, type of geology, remoteness of area; and
 - (c) political and regulatory risks—operating in a particular geography, legislative uncertainties, title risk.
44. We also explored whether entities should be required to disclose a breakdown of annual E&E expenditure (if expensed) or E&E assets (if capitalised) by major project with some narrative information about each project’s risks and uncertainties.

Summary of feedback

45. [Agenda Paper 19C](#) to the IASB’s July 2023 meeting contains a detailed summary of the feedback for this topic.
46. Overall, feedback on information to help understand the risks and uncertainties of entities’ E&E activities was mixed. There were many concerns about disclosing this information and its location. Views were also mixed about how useful the information would be.
47. Feedback from users on the usefulness of risk and uncertainty information was mixed. Many said the information would be useful, including the disaggregation of E&E expenditure by major project. However, many others said they get information about risks and uncertainties outside financial statements and it is difficult to require this information in financial statements because risks are subjective.
48. Feedback from preparers was mixed. Although there was recognition that some risk and uncertainty information might be useful, there were many concerns with disclosing the information, especially on a disaggregated basis.
49. Auditors, although acknowledging the information could be useful, were generally not supportive of the suggestion to require entities to disclose risk and uncertainty information in financial statements.

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50. Regulators were generally supportive of the disclosure suggestion, providing more specific information about risks and uncertainties and ensuring consistency.

Analysis

51. We found evidence that users would find more specific risk information about an entity's E&E activities to be useful information. We also found evidence that disclosing information on risks and uncertainties and E&E assets (or expenditure) both on a disaggregated basis would also be useful, helping to link the risk information with financial information.
52. However, we also found evidence of several concerns with disclosing this information which we do think have merit:
- (a) It would be costly to provide—Although we think entities are likely to have the information that would be required to be disclosed, we think there would be additional costs for the assurance, both internal and external, of the information. Auditors said they may need specialists to audit this type of information. Verifying the completeness of the information might also be a challenge for auditors and, because risks are subjective, enforcement might be difficult. Some of the information could also be commercially sensitive.
 - (b) Information is already provided—Users are already getting this information outside the financial statements in some jurisdictions, particularly jurisdictions with significant extractive industries.
 - (c) Why these activities in particular—Other activities in other industries can also be risky—for example, research and development in a pharmaceutical entity—it is not clear why this information should be required for E&E expenditure in particular.
53. We think an important concern that the IASB would need to consider if it did decide to pursue this suggestion is whether this type of information (for example, information about geological risks) belongs in financial statements.

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54. Paragraph 3.2 of the *Conceptual Framework* and paragraph 9 of IAS 1 state that the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.
55. The IASB would need to consider whether information about business risks constitutes financial information. Furthermore, many stakeholders said disclosing risk and uncertainty information about an entity's E&E activities should not depend on an entity's accounting policy—that is, an entity should be required to disclose similar information about risks regardless of whether it chooses to capitalise or expense E&E expenditure. This feedback suggests that the information is not directly related to the accounting for E&E but rather to the E&E activities themselves. Although this information could provide information about the prospects for future net cash inflows and the recoverability of an E&E asset for an entity that follows a capitalisation policy, the link to the elements of financial statements is less obvious for an entity that follows an expense policy.
56. We think some of the information contemplated by this disclosure suggestion could be provided by other requirements in IFRS Accounting Standards or future IFRS Accounting Standards. For example, one preparer said if there is a material risk this would already be disclosed in the financial statements as a significant judgment applying IAS 1. In its Primary Financial Statements project, the IASB is providing further guidance on the principles of aggregation and disaggregation of information in the financial statements. Following these principles, if an entity judged that items of E&E expenditure or E&E assets had sufficiently different risk characteristics that their disaggregation would provide material information, the entity would be required to disclose that disaggregated information.
57. Finally, as one auditor pointed out, we agree that many of the reasons that stakeholders provided for not including information about risks and uncertainties of E&E activities in financial statements are the same as, or very similar to, the reasons

the IASB concluded in September 2021 not to develop requirements for the disclosure of reserve and resource information in financial statements. For example:

- (a) Reserve and resource information is similar in nature to other information that is important to users of financial statements of entities in other industries that is generally not required to be disclosed in financial statements.
- (b) Reserve and resource information is required to be disclosed in most jurisdictions with significant extractive industries, generally outside financial statements.
- (c) Most users indicated they obtain sufficient and relevant reserve and resource information for the majority of entities they follow.

We think this is because many of the risks and uncertainties of E&E activities relate to the technical feasibility and commercial viability of reserves and resources.

- 58. We have not identified specific evidence that would suggest information about the risks and uncertainties of E&E activities should be treated any differently.
- 59. Overall, we do not think there is compelling evidence to pursue this disclosure suggestion and therefore we recommend that the IASB should not pursue developing requirements or guidance to disclose information about the risks and uncertainties of entities' E&E activities.

Other suggestions to improve information about E&E expenditure and activities

Summary of feedback

- 60. In its July 2023 meeting the IASB discussed other suggestions from stakeholders to improve information about E&E expenditure and activities (see [Agenda Paper 19D](#) to the IASB's July 2023 meeting).

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61. Many stakeholders we spoke to provided suggestions of other information about E&E expenditure and activities that, in their view, could be useful. Many of these stakeholders suggested disclosing an aging of E&E assets.² There were also other suggestions however, these suggestions were generally made by only one of these stakeholders.

Analysis

62. Although many of these stakeholders suggested disclosing aging of E&E assets and this could provide some information about the stage of the E&E activity and the recoverability of E&E assets, we do not think that the benefits of the change are significant enough to warrant standard-setting.
63. We therefore recommend that the IASB should not pursue this, or any of the other, suggestions to improve information about E&E expenditure and activities.

Summary of staff recommendations

64. As a result of our analysis set out in this paper, we recommend that the IASB should not pursue:
- (a) developing requirements or guidance to disclose information to help understand how entities account for E&E expenditure;
 - (b) developing requirements or guidance to disclose information to help compare entities with different accounting policies for E&E expenditure;
 - (c) developing requirements or guidance to disclose information to help understand the risks and uncertainties of entities' E&E activities; and
 - (d) other suggestions to improve information about E&E expenditure and activities.

² For example, analysing E&E assets by the time period the capitalised E&E expenditure was incurred.

Question for the IASB

Does the IASB agree with our recommendation in paragraph 64?