

Update on the IASB's Extractive Activities Research Project

UNECE AHGE meeting – 18 October 2007

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Project timing

- A discussion paper that invites comment on possible accounting and disclosure approaches identified by the project team
 - expected release date is mid-to-late 2008
- Comments on discussion paper will inform IASB when it develops an IFRS for extractive activity accounting
 - expected release date for IFRS is uncertain
 - earliest case: mid-2012

Key research questions

- How should reserves/resources be recognised and measured on the balance sheet?
 - fair value
 - historical cost
 - some other basis – e.g. a current value measurement
- What reserves/resources information should be disclosed in the financial report?
- How should reserves/resources be defined?

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Recap on recent outcomes

1. Assessment of fair value as a measurement basis for reserves and resources
2. Survey of user needs in respect of reserve and resource information
3. Comparison of minerals and oil & gas reserve and resource definitions

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(1) Suitability of fair value

- Consulted preparers and some users on suitability of fair valuing reserves and resources
- Valuation technique most likely to be an income approach (e.g. DCF model)
- Most inputs expected to be based on entity's own data and assumptions

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(1) Suitability of fair value (cont)

- Fair value information relating to reserves and resources may be relevant, but...
 - challenges with verifying reserve and resource volume estimates and fair values
 - concerns with reserve and resource fair values being neutral and comparable
 - difficulties in preparing fair value estimates for all properties in time to meet the financial reporting timetable

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(1) Suitability of fair value (cont)

- IASB acknowledged difficulties in preparing fair value estimates of reserve and resource assets, but noted that
 - historical cost does not provide a relevant measurement basis for these assets
 - providing value-based information about reserves and resources as a note disclosure is no alternative to balance sheet recognition supplemented by disclosure
- Continuing research should consider, as a potential measurement base, other current value methodologies that contain as many attributes of fair value as possible whilst addressing the identified difficulties

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(2) User survey

- Aim was to better understand information needs of oil & gas and mining analysts
- 34 users interviewed – sell-side, buy-side, debt rating agencies, lenders, venture capital
- Results from a user survey indicated that
 - limited interest in valuing reserves/resources on balance sheet or in disclosure (either fair value or current value)
 - limited usefulness in historical cost measurement
 - want information to input into own models
 - disclosures are key

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(2) User survey (cont)

- IASB discussed findings with analysts
- Agreed that the research should identify disclosures of reserve information that meet the needs of analysts and that are suitable for inclusion in the financial report
- Further research should consider:
 - when these disclosures should be presented in the financial report
 - what asset should be recognised on the balance sheet – is it the reserves only, the project (i.e. reserves + infrastructure), something else?
 - alternative measurement bases – being the application of current value and historical cost

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(3) Definitions comparison

- Requested CRIRSCO and SPE to identify opportunities for converging elements of their minerals and oil & gas definitions
- IASB is encouraged by the progress made
 - common concepts have been identified
 - new PRMS improves comparability between both definition systems – such as economic assumptions
 - a “mapping document” has been prepared to emphasise the comparability between the systems
- Review of mapping document involves IASB, IOSCO and UN AHGE

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Research in progress...

- Research focus
 - Asset recognition and unit of account
 - Disclosure of reserve and resource information
- Consider applying the same accounting to both minerals and oil & gas
- CRIRSCO/SPE mapping is a significant input to our ongoing research

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Initial recognition of a minerals or oil & gas asset

- Asset recognition is generally based on “probable future economic benefits”
- To apply this principle, one approach might be to link asset recognition to reserve and resource classifications
 - For example:
 - asset recognition based on the existence of a reserve
 - this threshold may deliver comparable accounting as Mapping indicates comparability exists between mineral and petroleum reserves
 - differences in presentation of reserves estimate (e.g. sales quantity vs tonnage and grade) does not affect asset recognition or asset measurement (as will be denominated in currency)

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Disclosure

- Users want information on reserves (and resources) to help them prepare their own valuation
- Many users want volume disclosure beyond proved reserves
- Current disclosure practice is diverse
- Factors to consider:
 - what reserve/resource information should be in financial reporting disclosures?
 - what information should be outside the financial report?
 - should reserve estimates be presented as
 - “through the eyes of management”?
 - reflecting standardised conditions (e.g. price)?
 - what level of disaggregated presentation is both useful to users and feasible to present?

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Extractives research project

Questions /
comments?

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