

Extractive Activities Research Project

UN Expert Group of Resource Classification

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The views expressed in this presentation are those of the presenter,
not necessarily those of the IASC Foundation or the IASB



Discussion paper published

April 2010

Discussion Paper DP/2010/1

Extractive Activities

Comments to be received by 30 July 2010



April 2010

Discussion Paper

Snapshot: Extractive Activities Discussion Paper

This snapshot introduces the results and proposals of a research project on the accounting and disclosure requirements for extractive activities as published in a discussion paper – *Extractive Activities*. As such, it does not represent the official views of the Board.

The project was conducted by a project team of national standard-setters from Australia, Canada, Norway and South Africa for the International Accounting Standards Board (IASB).

The snapshot has been prepared by staff and is not an official technical document of the IASB or the IFRS.

Project objective: The objective of the research project is to analyse the unique financial reporting issues applicable to extractive activities, and to identify a basis on which a financial reporting model might be developed to address them. The research findings, including the comments received on this discussion paper, will assist the IASB in deciding whether to develop an IFRS for extractive activities and to decide upon the content of that IFRS.

Project stage: The IASB published the project team's discussion paper on 6 April 2010. It follows the release of a working draft of the discussion paper in August 2009. The discussion paper was developed after consulting extensively with industry participants to identify and analyse financial reporting issues associated with extractive activities.

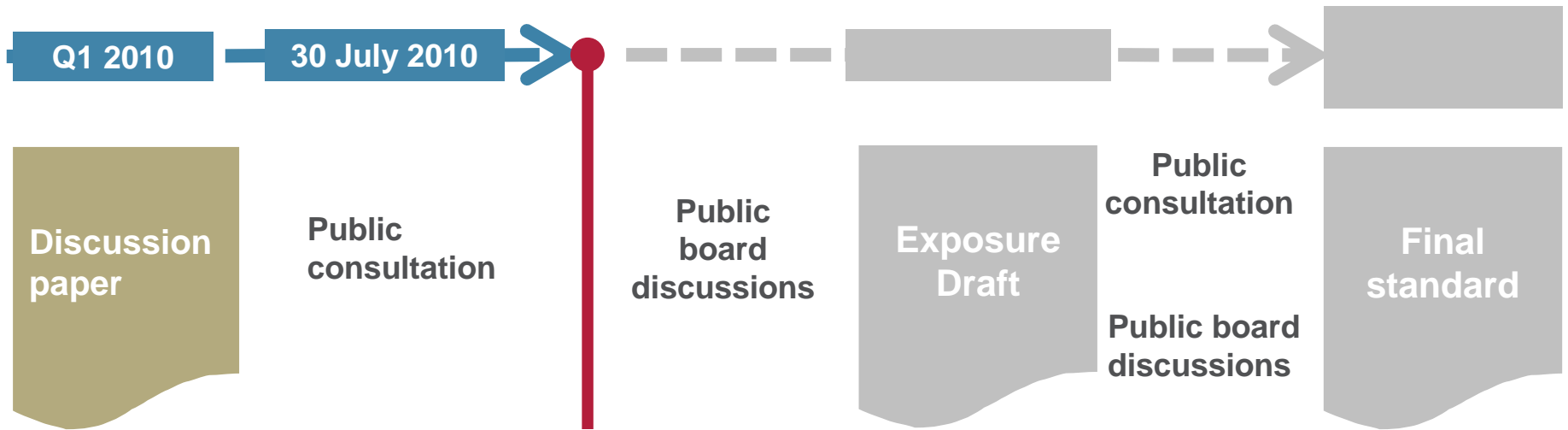
Comment deadline: The IASB invites comments on the discussion paper by 30 July 2010.



- Discussion paper published on 6 April 2010
- Comments due by 30 July 2010
 - Discussion paper and snapshot available from www.iasb.org



Our due process



Agenda decision

Additional input from:

Advisory council, working group, analysts, preparers, technical experts, local standard setters, regulators and political groups.



Recap: Reasons for the project

- IFRSs do not provide specific guidance for exploration, evaluation, development and production of minerals or oil and gas
- Some of the practices applied are not compatible with the general principles within IFRSs
- Users need more information about an entity's extractive activities to assess financial position and performance

Accounting and disclosure practices often vary by industry, by jurisdiction, and by company size

Key research questions

- How should mineral and oil & gas reserves and resources be **defined**?
- When should an asset relating to mineral and oil & gas reserves and resources be **recognised** on the balance sheet?
- How should this asset be **measured**?
- What information about mineral and oil & gas reserves and resources should be **disclosed** in the financial report?



User views

- Balance sheet recognition and measurement of minerals or oil & gas assets has limited usefulness
 - historical cost is not relevant
 - fair value is too subjective

Accounting should be simple to apply and consistent

- Want information to be disclosed that can be included into their own models

Extensive disclosures needed for financial statements to provide useful information to users



Definitions

- No single agreed definition of reserves or resources for the extractive industries
- Project team recommends for use in an IFRS
 - Petroleum Resource Management System (PRMS) – for oil & gas
 - The CRIRSCO Template – for mining
- Why?
 - Wide acceptance
 - Broad and comprehensive scope
 - Broad equivalence between key concepts
 - therefore capable of providing a platform for comparable accounting and disclosure requirements across both industries



Asset recognition

- The asset is the rights to the minerals, not the minerals themselves
 - minerals recognised as inventory when produced
- Asset recognised consistent with the legal rights
 - eg 100% interest in mineral rights, a shared interest in mineral rights through a joint arrangement, or a Production Sharing Contract
- Costs of E&E activities not expensed as incurred
- Impairment testing necessary
 - unless current value remeasurement each period



Asset measurement

- Historical cost is verifiable, but ...
 - cost has limited relevance to users
- Fair value seems relevant (in principle), but ...
 - requires many subjective assumptions and estimates
 - significant time and effort to prepare
 - cost/benefit implications
- Project team recommends historical cost
 - neither cost or fair value provide significant benefit to users
 - expensing all exploration understates earnings
 - historical cost measurement is less costly for preparers



- Guiding principles
 - respond to user needs
 - consistent disclosure for minerals and oil & gas
 - this does not mean identical disclosure
 - cost/benefit considerations
 - proposals represent a substantial change to existing practice in both industries
 - consistency with regulatory requirements



Publish What You Pay

- Publish What You Pay are concerned that resource wealth is not benefiting citizens of many resource-rich developing countries
- PWYP request disclosure on country-by-country basis for
 - payments to governments
 - reserves, production etc
- Help users evaluate political and reputational risk
- Constituent comments will be requested



Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

