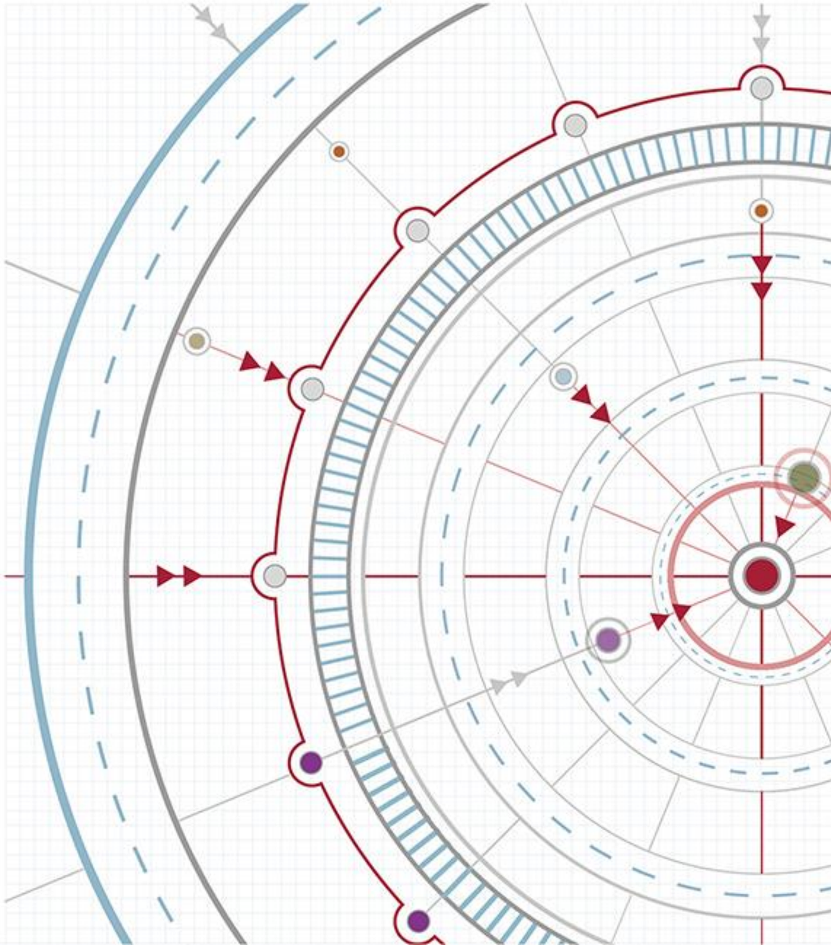


IFRS for Extractive Activities

IFRS Conference

Nairobi, August 2016

Matt Tilling, IASB Director of Education

Why undertake this research project?

- IFRSs do not provide specific guidance for extractive activities
  - IFRS 6 is an interim standard
  - scope exclusions in other standards
  - no specific disclosure requirements
- Some question the relevance of existing accounting and disclosure practices

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

Key research questions

- What should be the scope of a future IFRS?
- 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?

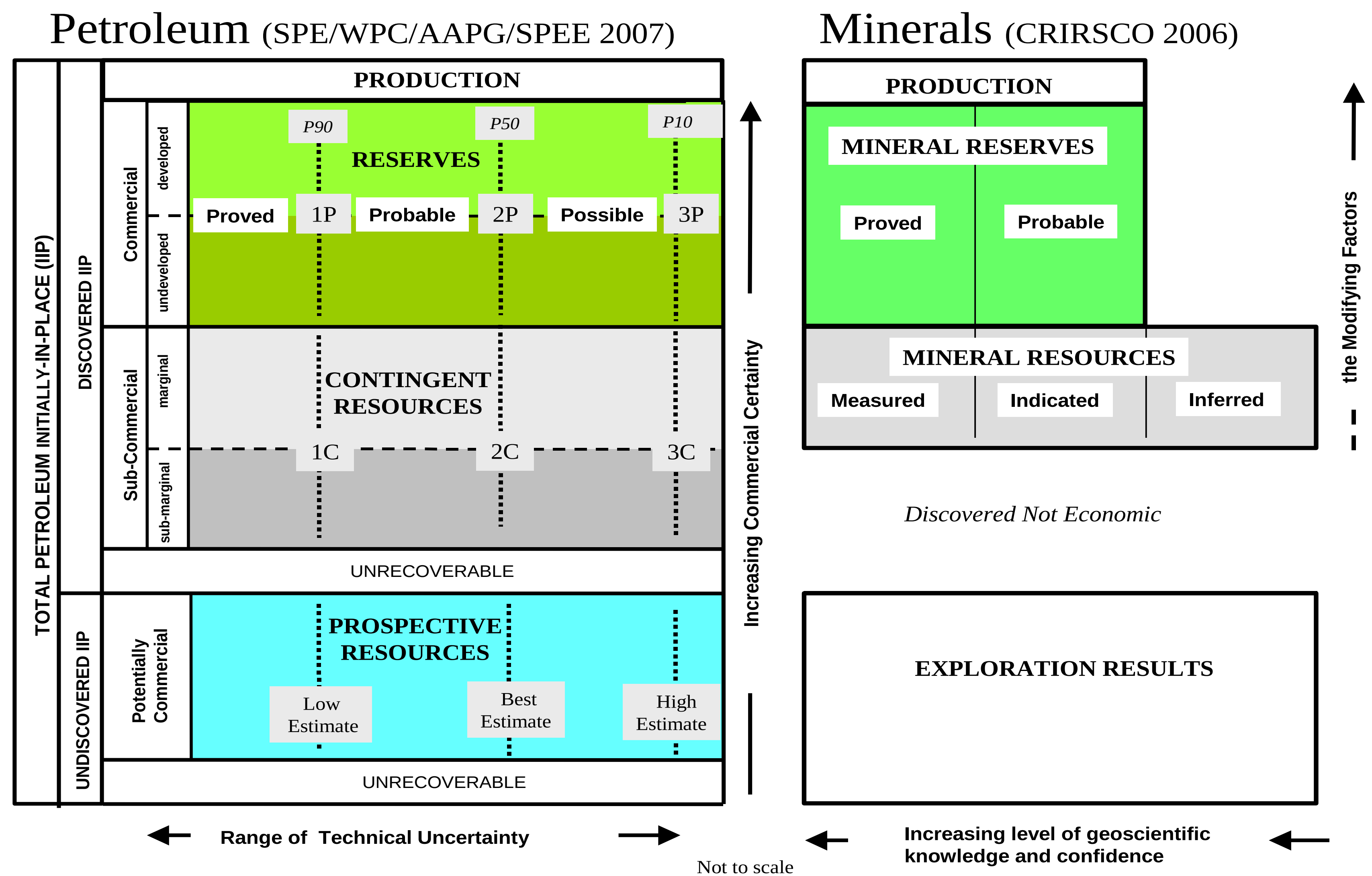
Scope

- Discussion paper proposes a single model for mining and oil & gas extractive activities
  – main business activities of exploration, evaluation, development and production are similar
  – subject to similar geological, economic and political risks and uncertainties

Reserves definitions

- Definitions key for disclosures
  - No existing set of broadly accepted definitions
- Discussion paper proposes
  - Oil & gas – PRMS
  - Minerals – CRIRSCO template
- Why
  - Wide acceptance
  - Broad and comprehensive scope
  - Broad equivalence between key concepts

Definitions continued



Asset recognition

- Discussion paper proposes that an entity should account for the minerals or oil & gas property
- Initial recognition when acquire legal rights to explore
- Over time this asset is enhanced by
  - information from exploration & evaluation activities
  - development to access the minerals or oil & gas
  - additional rights and approvals
- Unit of account
  - evolves from an area defined by the exploration rights (in initial exploration) to the field or mine (in development)

Asset measurement

- Historical cost is verifiable but has limited relevance to users
  - no correlation between finding & development costs incurred and future cash flows that will be generated
- Fair value requires too many subjective assumptions and estimates to be useful or comparable
- Discussion paper proposes measuring at historical cost
  - neither cost or fair value provide significant benefit to users
  - historical cost measurement is less costly for preparers

Disclosure

- Reserves
  - Quantities: proved and probable, changes
  - Disaggregate by risk: commodity, geography
  - Key inputs: assumptions, sensitivities
  - Value?
- Financial
  - Revenue by commodity
  - Exploration, development and production costs

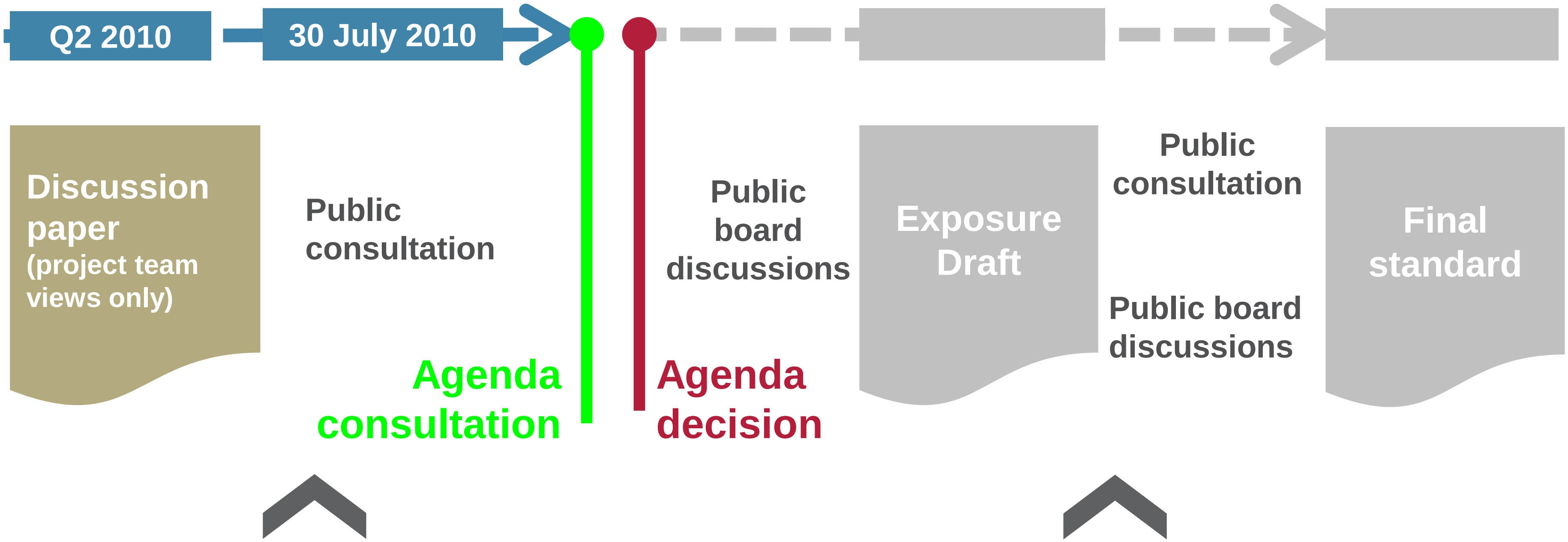
Disclosure

- Publish What You Pay (PWYP)
  - PWYP are concerned that resource wealth is not benefiting citizens of many resource-rich developing countries
  - Intended to complement EITI (“publish what you earn”)
  - Disclosure of country-specific information including information on payments to governments
  - How useful is that information to investors and lenders?
    - investment and reputational risk evaluations

Disclosure considerations

- If included in an IFRS, the disclosures will have to be audited
  - Do auditors have the knowledge?
  - What will it cost?
  - Can filing deadlines be met?
- If disclosures are not in an IFRS, how can they be mandatory on a global basis?
- Publish What You Pay
  - Do such disclosures have a place in financial reports?
  - Preparation and audit concerns

Status of extractive activities project



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

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IFRIC 20 Stripping costs in the production phase of a surface mine

Why the need for an interpretation?

Diversity in existing practice

- **US GAAP:** variable production cost
- **Canadian GAAP:** variable production costs, but may be capitalised if a 'betterment' exists
- **IFRS:**
  - No specific guidance
    - excluded from relevant standards
    - diversity of practices
  - 'Strip ratio approach' is common:
    - life-of-mine strip ratio
    - 'normal' levels of stripping costs: current period operating costs
    - 'excess' stripping costs: capitalised and amortised over remaining life of mine

Scope

- Waste removal costs incurred in:
  - Surface mining
  - Production phase
- Does not address:
  - Underground mining
  - Application to oil sands extraction
  - Pre-production stripping

Asset recognition

- Two potential benefits from stripping activity:
  - Production of usable ore (inventory)
  - Improved access to ore that will be mined in future
- Ore produced accounted for in accordance with IAS 2 *Inventories*
- Benefit of improved access recognised as an asset if:
  - Probable future economic benefits
  - Can identify component of ore body for which access improved
  - Costs can be measured reliably
- ‘Stripping activity asset’ is *part* of an existing asset

Initial measurement

- Stripping activity asset measured at cost:
  - Directly incurred costs
  - Allocation of attributable overheads
- Measure cost directly if separately identifiable from cost of inventory
- If cost not separately identifiable, allocate stripping costs using relevant *production* measure
  - Don’t allocate using sales values

Subsequent measurement

- Measure stripping activity asset consistently with larger asset of which it is a part
  - Cost, or revalued amount
  - less depreciation / amortisation
  - less impairment
- Depreciate / amortise over component of ore body for which access was improved

Transition and effective date

- Apply to stripping costs incurred on or after beginning of earliest period presented
- Opening balances to be linked to components of ore for which access was improved
  - If no such ore remains / can be identified, write off against opening retained earnings

Other topics

IFRS

Other topics

- IFRS 11 *Joint Arrangements*
- Leases
- Revenue

IFRS 11—assessments required

1st assessment

JOINT CONTROL

Do all the parties, or a group of the parties, have **joint control** of the arrangement?

No

Outside the scope of IFRS 11

Yes

2nd assessment

Classification of the JOINT ARRANGEMENT

Analysis of the **parties' rights and obligations** arising from the arrangement

Joint Operation

Joint Venture

IFRS 11—assessing joint control

Does the contractual arrangement give all the parties, or a group of the parties, control of the arrangement collectively?

No → Outside the scope of IFRS 11

Yes ↓

Do decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties, that collectively control the arrangement?

No → Outside the scope of IFRS 11

Yes ↓

The arrangement is jointly controlled
the arrangement is a joint arrangement.

IFRS 11—assessing classification of the arrangements

Not structured through a separate vehicle *

Structured through a separate vehicle *

Assess the parties' **rights and obligations** arising from the arrangement by considering:

(a) the *legal form* of the separate vehicle
(b) the *terms of the contractual arrangement*, and, if relevant,
(c) *other facts and circumstances*

Parties have rights to the assets and obligations for the liabilities

Parties have rights to the net assets

Joint operation

Joint venture

Accounting for **assets, liabilities, revenues and expenses** in accordance with the contractual arrangements

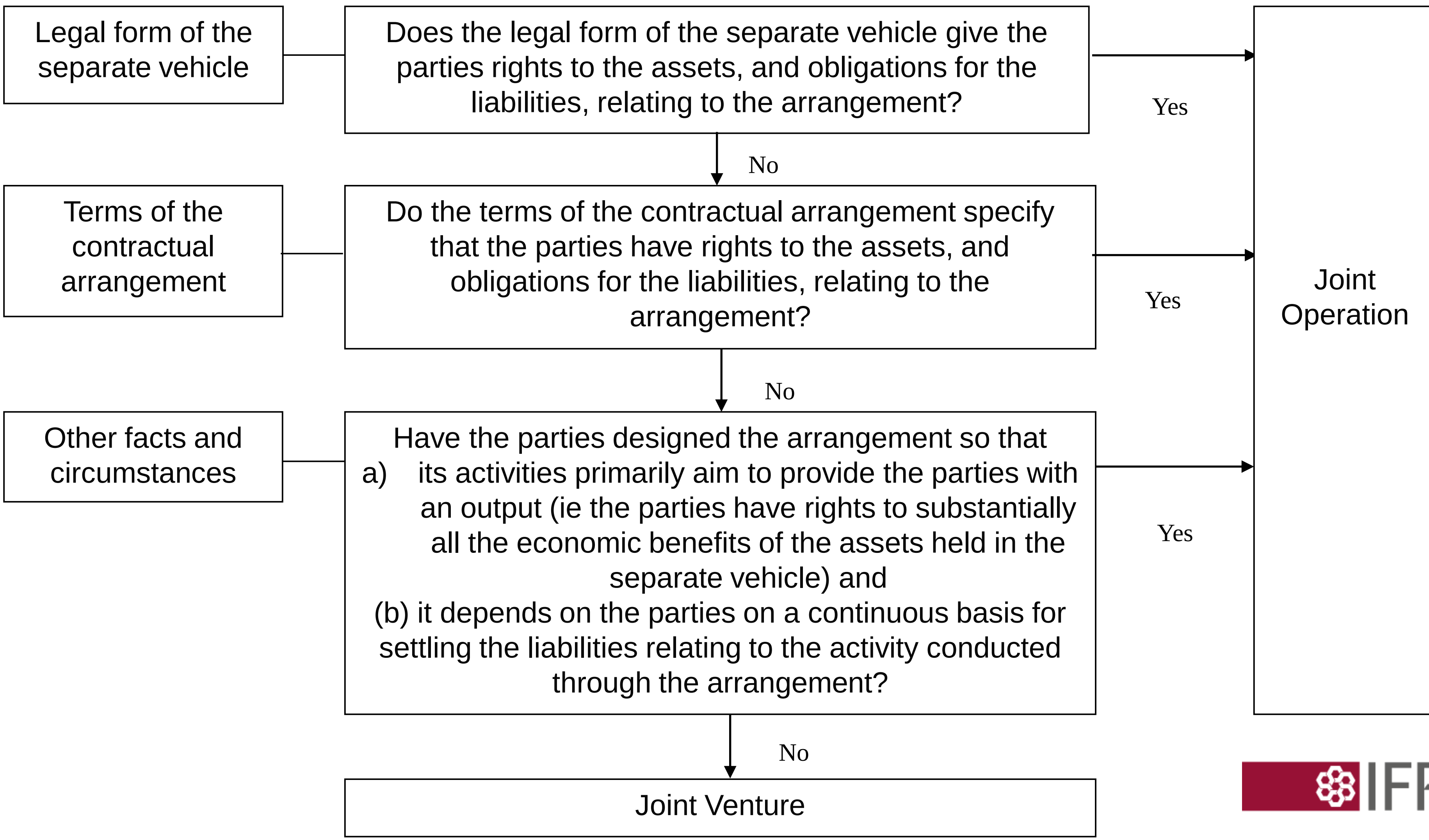
Accounting for an **investment** using the **equity method**

Assessment of the parties' rights and obligations

Accounting reflects the parties' rights and obligations

(*): A *separate vehicle* is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

IFRS 11—assessing the classification (arrangements structured through a separate vehicle)



Leases—Definition of a lease

Contract in which the right to use an asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration

- Fulfilment depends on identifiable asset
- Right to control use of underlying asset

- Notion of control changed
  - Update to ‘direct the use’ and receive benefits
  - Change from IFRIC 4/ED – if entity obtains substantially all output ≠ control

Leases—Industry issues

- Scope: What is a lease, what is a service?
  - Tolling arrangements
  - Drilling rig contracts
  - Pipelines
- Recognition and measurement
  - Contingent consideration (variable payments/receivable)
  - No change for embedded derivatives

Revenue—industry issues

- Scope: What is a customer?
  - Underlift and overlift
  - Production sharing contracts
- Recognition and measurement
  - Provisional pricing
  - Take or pay contracts

Questions


individual comments
questions
comment
expressions of
individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
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expressions of individual views
expressions and viewpoints

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