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

Petroleum (SPE/WPC/AAPG/SPEE 2007)

- **Reserves**
  - Proven (1P)
  - Probable (2P)
  - Possible (3P)
- **Contingent Resources**
  - 1C
  - 2C
  - 3C
- **Prospetive Resources**
  - Low Estimate
  - Best Estimate
  - High Estimate
- **Unrecoverable**

Minerals (CRIRSCO 2006)

- **Mineral Reserves**
  - Proven
  - Probable
- **Mineral Resources**
  - Measured
  - Indicated
  - Inferred

- **Exploration Results**
  - Discovered Not Economic

Range of Technical Uncertainty

Increasing level of geoscientific knowledge and confidence

Not to scale
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.
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
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?

Yes

Classification of the Joint Arrangement
Analysis of the parties’ rights and obligations arising from the arrangement

No

Outside the scope of IFRS 11

2nd assessment

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?

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?

Yes

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

No

Outside the scope of IFRS 11

No

Outside the scope of IFRS 11
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 net assets

Parties have rights to the assets and obligations for the liabilities

Joint operation

Structured through a separate vehicle *

Joint venture

Not structured through a separate vehicle *

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)

- **Legal form of the separate vehicle**
  - Does the legal form of the separate vehicle give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement?
    - Yes → Joint Operation
    - No → Terms of the contractual arrangement

- **Terms of the contractual arrangement**
  - Do the terms of the contractual arrangement specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement?
    - Yes → Joint Operation
    - No → Other facts and circumstances

- **Other facts and circumstances**
  - Have the parties designed the arrangement so that:
    1. Its activities primarily aim to provide the parties with an output (i.e., the parties have rights to substantially all the economic benefits of the assets held in the separate vehicle)
    2. It depends on the parties on a continuous basis for settling the liabilities relating to the activity conducted through the arrangement?
      - Yes → Joint Operation
      - No → Joint Venture
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

expressions of individual views
individual comments
questions or comments

expressions of individual views
questions

expressions of individual views
feedback

expressions of individual views
questions

expressions of individual views
feedback

expressions of individual views
feedback and comments

expressions of individual views
sessions and viewpoints
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