

# *A Review of the International Accounting Standards Board's Extractive Activities Draft Discussion Paper*

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# International Financial Reporting Standards (IFRS)

July 2008

## A Guide through International Financial Reporting Standards (IFRSs®)

including the full consolidated text of the Standards and  
Interpretations and accompanying documents approved for issue  
by the International Accounting Standards Board at 1 July 2008  
*with extensive cross-references and other annotations*



# International Financial Reporting Standards (IFRS)

- 120 countries now permit or require use of IFRSs by stock market listed companies
- IFRSs are designed for current value (mark-to-market) financial reporting for asset values
  - US GAAP was historic value based
- The IFRSs are principles-based accounting standards
  - US GAAP was rules-based

# International Financial Reporting Standards (IFRS)

## USA Adoption Status

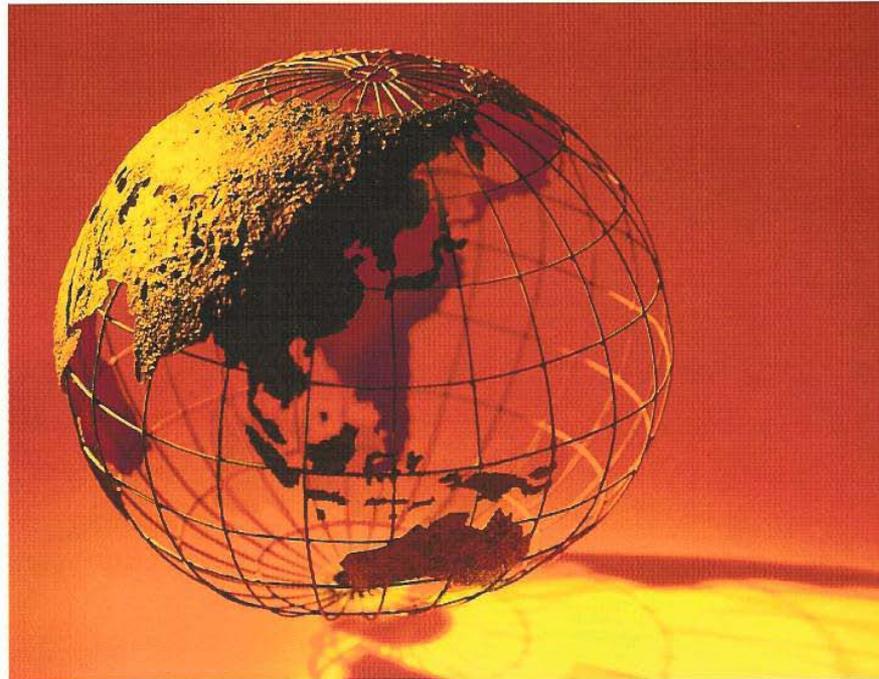
- USA adoption by convergence project for US GAAP with IFRSs
  - Begun 2002
  - Completion in 2011
- IFRSs now allowed for financial reporting in USA by foreign listed companies
- IFRSs optional for 2010 fiscal year reporting for many USA companies
- Likely mandatory for 2014

# Extractive Activities IFRS Development

- IASB in 2010 will likely set its plans for drafting a comprehensive extractive activities (minerals and oil & gas) IFRS
  - Release of the new IFRS 6 in about 4 years
  - The Extractive Activities Discussion Paper provides recommended principles to the standards writers
- Regulators may initially only allow reporting of fair value estimates of mineral assets for business combinations and impairment testing
- The International Valuation Standards (IVSs) are designed to support current value reporting under IFRSs

# International Valuation Standards Eighth Edition

2007



International  
Valuation Standards  
Committee

# Project History of Extractive Activities (Draft) Discussion Paper

- 179 page paper released 10 Aug 2009
- Comments may be invited by IASB in first quarter of 2010.
- Research project scoping begun by team leader Glenn Brady in 2002
- 2004 research team began project
- The team is 7 national accounting standard setters
  - Australia, Canada, Norway, South Africa

# Extractive Activities Discussion Paper – Purpose

- The purpose was to research the accounting for extractive activities of minerals and petroleum (oil & gas) industry sectors.
- The discussion paper presents the project team's findings and recommendations developed from that research

# Extractive Activities Research Process

- Enlisted an advisory panel from:
  - operating entities in the industries
  - accounting firms
  - users of financial reports and securities regulators
- Consulted CRIRSCO, SPE, and UNECE resources classification expert groups
- Consulted many industry and investment professionals
- Obtained written submissions of comments on many Working Papers drafted by the team
  - Ellis wrote many submissions

# The Preceding Research Project

- Conducted by International Accounting Standards Committee (IASC) all volunteer Extractive Industries Steering Committee
- Begun 1998
- 412 page Issues Paper published Nov 2000
- 52 comment letters received by July 2001
- IASB team drew on this research and comments

# Reasons for the Second Research Project

- The unusual complexities of accounting in the two industries
- The divergence of methods of accounting within and between the industries
- The variations in classifications and terminologies used within and between
- The IVSC submitted a comprehensive, strong critique of the IASC Issues Paper
  - Promised to develop an extractive industries valuation standard on a fast track schedule

# EA DP Findings – General

- Considerable similarities in the reserve and resource definitions used in the minerals and oil & gas industries.
- Considerable overlap exists in the financial reporting issues the industries face.
- Therefore recommended that there should only be a single accounting and disclosure model that applies to extractive activities of both industries.

# EA DP Findings – Resource-Reserve Classification Systems

- For minerals recommends the CRIRSCO Template
- For oil and gas recommends the Petroleum Resources Management System (PRMS) of the SPE/AAPG/WPC/SPEE
- Found the cross mapping since 2005 helpful
- For the United Nations Framework Classification for Fossil Energy and Mineral Resources (UNFC)
  - Liked the unifying umbrella classification for minerals and petroleum and universally applicable scheme
  - But, inadequate acceptance, use, and testing in financial reporting
  - The IASB should review the UNFC status when it picks up the drafting of the EA standard

# EA DP Findings –Asset Recognition

- Legal rights (exploration and extraction rights) should form the basis of the minerals or oil and gas asset.
- Asset recognition should occur when the legal rights are acquired (i.e. capitalize their costs)
- Geological information is associated with these legal rights
  - about the (possible) existence of minerals or oil & gas, the extent and characteristics of the deposit
- Recommends that rights and information be combined in satisfying asset recognition criteria (i.e. capitalize both)

# EA DP Findings –Asset Measurement

- Considered various types of reserve asset values that could be reported:
  - Historic cost; standardized measure; and various levels of fair value
- Found fair value little relied on by users and costly to prepare
- Standardized measure less costly, but conveys little useful information
- Recommended historic cost as the lesser of evils

# EA DP Findings – Disclosure

- Recommends extensive disclosures to ensure that users of financial reports can evaluate:
  - The value attributable to an entity's minerals and oil and gas assets
  - The contribution of those assets to current period financial performance
  - The nature and extent of risks and uncertainties associated with those assets
- Disclosure of reserves is not a regulatory matter, but an element of the financial statements
  - similar to disclosure of biological assets

# EA DP Findings – Disclosure

- Recommends detailed disclosures about the quantities of reserves, resources, production revenues and costs
- If the assets are measured at historical cost then detailed information should be disclosed about their current value and how it was determined
  - Also provide a standardized measure of reserves
- If the assets are measured at fair value, even more detailed information should be disclosed
  - about that the determination of that fair value and testing a range of value