

# Straight away

## IFRS bulletin from PricewaterhouseCoopers

### The IASB publishes Discussion Paper on 'Extractives Activities' project

#### What is the issue?

The IASB formally published the Extractive Activities Discussion Paper (DP) on 6 April 2010. The discussion paper sets out proposals to address some of the current accounting challenges of the mining and oil & gas industries for upstream activities. A draft version of the DP has been available on the IASB website for some months and the only substantive changes from that version in the published DP are:

- clarification of the approach to cost allocation to the unit of account and when impairment events may be considered to have occurred;
- suggested presentation requirements for exploration assets and additional disclosure of why the assets continue to be carried; and
- guidance on the extent to which the new reserve disclosures are expected to be audited.

The DP considers financial reporting issues for extractive activities and provides views on:

- the definitions of reserves and resources for financial reporting purposes
- the basis for recognising mineral and oil & gas assets
- initial and subsequent measurement of mineral and oil & gas assets
- the extent and nature of disclosures.

The key recommendations in the DP are:

1. A single financial reporting model for mining and oil & gas activities. The main business activities (i.e. exploration, evaluation, development and production) and the risks and uncertainties are very similar for both industries.
2. Reserves and resources definitions for financial reporting should be the definitions of the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) and the equivalent definitions of the Society of Petroleum Engineers (SPE).
3. Mineral and oil & gas assets are recognised when a legal right to explore is acquired. Information gained from exploration and evaluation activities, as well as development activities, represent enhancement of the exploration / reserves & resources asset.
  - a. The level of detail / aggregation at which assets are recognised and presented (known as the 'unit of account') is initially the geographical area of the exploration right. This is refined over time as exploration and development plans are developed, ultimately resulting in one or more units of account, generally at the level of the individual mine or field.
  - b. The components approach used for property, plant and equipment is applicable for the components of a mineral or oil & gas asset.
4. Mineral and oil & gas assets should be measured at historical cost, supplemented by disclosure of volume and current value of reserves. The historical cost recommendation was driven by:
  - a. Views of analysts, suggesting that current values included in financial statements would be used primarily as a comparison for the analysts' own current value calculations; and
  - b. Cost / benefit concerns from preparers that fair values would not provide sufficient benefits to users..
5. Detailed disclosures in the financial statements of:
  - a. Reserve quantities, by commodity, and by country (or project if sufficiently material) including:

- i. Proved developed reserves, proved undeveloped and probable reserves
    - ii. Estimation methods and assumptions
    - iii. Sensitivity analysis to the main economic assumptions (e.g. price assumptions, exchange rate assumptions)
    - iv. Reconciliation of changes in reserve quantities
  - b. Either current value or fair value measurement of proved and probable reserves, by major geographical region:
    - i. Standardised measure or fair value estimate
    - ii. Preparation basis and assumptions
    - iii. Sensitivity analysis
    - iv. Reconciliation of changes in reserve values
  - c. Production revenues by commodity
  - d. Costs, disaggregated in the same way as reserve quantities, with a 5-year track record, of:
    - i. Exploration costs
    - ii. Development costs
    - iii. Production costs
6. Scoped out of the project are issues common to other industries, such as revenue recognition, inventory valuation, decommissioning obligations or joint arrangements.

The DP also considers the proposals from the Publish What You Pay (PWYP) campaign. PWYP is a global civil society coalition that campaigns for the mandatory disclosure of company payments and government revenues from the oil, gas, and mining sector. The PWYP proposals suggest similar disclosure as above, but generally in more detail and on a country-by-country basis. PWYP has also requested country-by-country disclosure of all payments to governments (e.g. income taxes, royalties).

## Am I affected?

The recommendations in the DP will be applicable for all mining and oil & gas companies, from junior miners to large integrated oil majors. The views of commentators may well have significant influence on the direction of a future standard. The current proposals would affect the accounting and disclosure of all stages of upstream mining and oil & gas activities; from capitalisation of exploration costs, through to detailed disclosure of proved and probable reserve volumes and values on a disaggregated basis.

## What do I need to do?

The IASB is officially requesting comments on the DP now. The comment period will end on 30 July 2010. Your input as an industry expert, preparer or analyst is important to produce a useful exposure draft, and ultimately a standard. Your local PricewaterhouseCoopers extractive industries specialist can assist you during this comment period.

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