

Update on the IASB's Extractive Activities Research Project

UNECE Ad Hoc Group of Experts on Harmonization of
Fossil Energy and Mineral Resources Terminology
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The research objective

- To take a “fresh look” at how to account for minerals and oil & gas reserves and resources
- Key questions:
 - When should an asset be **recognised** on the balance sheet?
 - How should reserves/resources recognised on the balance sheet be **measured**?
 - What reserves/resources information should be **disclosed** in the financial report?
 - How should reserves/resources be **defined**?

Definitions

- SPE/CRIRSCO Mapping report considered by IASB in March 2008
 - it will be useful for developing accounting models for reserves and resources that are comparable across minerals and oil & gas.
- The Discussion Paper will propose the use of CRIRSCO template and PRMS to support the setting of accounting requirements for minerals and oil & gas reserves and resources.

What about other systems?

- Monitoring SEC developments
 - SEC Concept Release issued in December 2007
 - Many responses encouraged SEC to
 - Adopt PRMS definitions
 - Coordinate with IASB
- Monitoring progress on UNFC
 - Will there be case studies involving companies applying the UNFC?
 - Will there be support for the UNFC from companies and users?

Asset recognition

- In the continuum from prospecting to production, when can an asset be initially recognised?
 - when does entity have control over future benefits?
 - application of recognition criteria
 - relationship with reserve and resource classifications
- What is the asset?
 - Possibly 2 types of asset
 - properties with (controlled) reserves and resources
 - a tangible asset
 - other properties – rights and knowledge
 - an intangible asset

Asset measurement alternatives

- Historical cost
 - *Advantage*: verifiable
 - *Disadvantage*: limited relevance to users
 - no correlation between finding & development costs incurred and the future cash flows that will be generated from the minerals or oil & gas property
- Fair value (or a “simplified” fair value)
 - *Advantage*: more relevant (in principle)
 - *Disadvantages*:
 - requires many subjective assumptions and estimates – is it meaningful?
 - time and effort – is it feasible? Cost/benefit?

Disclosure

- What reserve/resource information should be in financial reporting disclosures?
 - users want information to input into own models
 - most users want more than proved reserves
- Should reserve estimates be presented as
 - “through the eyes of management”?
 - reflecting standardised conditions (e.g. price)?
- What level of disaggregated presentation is both useful to users and feasible to present?

Financial reporting needs

- Broadly speaking, these needs include
 - the provision of information that can assist users in making investment decisions
 - classifications that are relevant to the design of the IFRS that will prescribe the accounting for reserves and resources
- These needs are inter-related

User needs

- Users want information that can help them prepare their own valuations of a company
 - This information will be obtained from a variety of sources
 - Financial statements and note disclosures are only one source
- Includes reserve (and resource) volumes, production schedule information, capital and operating cost information etc
 - Some of this information is required to be provided to capital markets by securities regulations, stock exchange listing rules and/or accounting standards
 - Other information may be provided by the company on a voluntary basis

Accounting standard needs

- Specific accounting standard needs will only be known when the IFRS is nearing completion
 - The Discussion Paper will only include our proposals
- Classifications of most interest are likely to be
 - Reserves
 - Proved and probable reserves
 - Mineral resources / marginal contingent resources

Accounting standard needs

- Examples of possible uses of classifications
 - for asset recognition
 - to identify the point of initial recognition of assets
 - for asset measurement
 - if historical cost, to set a depreciation baseline that is a proxy for field/mine life
 - if a valuation, (possibly) to set the boundaries of the valuation (e.g. proved reserves only)
 - for disclosure
 - to prescribe what reserve / resource information is to be provided

Accounting standard needs

- Fair value is already used for business acquisition and impairment accounting
 - Unrealistic to expect that a financial reporting disclosure can fully explain how a fair value estimate was determined
 - 9 pages to explain Grant Samuel valuation of Olympic Dam
 - 8 pages to explain Deloitte valuation of Shell's NWS assets
 - Disclosing this amount of information may not be feasible for annual financial statements
 - More likely to be a disclosure of the method and significant assumptions applied in estimating fair value
 - Unlikely to require disclosure of all volumes/classifications that would be taken into account in estimating fair value

Project timing

- Discussion paper expected in late 2008
 - will identify possible accounting approaches and request comments
- Discussion paper and comments will be key input for IASB in developing an IFRS for extractive activity accounting
- Release date of IFRS is dependent on several factors