

# Extractive Activities Research Project

UNECE AHGE on Harmonization of Fossil Energy and Mineral  
Resources Terminology, Sixth Session - 25 March 2009

Glenn Brady (Extractive Activities Research Project Team)

## IASC Foundation

The views expressed in this presentation are those of the presenter,  
not necessarily those of the IASC Foundation or the IASB



# Recap: Key research questions

---

- 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?
- How should mineral and oil & gas reserves and resources be **defined**?



# Guiding principles

---

- Adhere to the *Framework*, but not necessarily bound by existing IFRSs
  - (e.g. IAS 38 *Intangible Assets*)
- **Consider developing consistent accounting and disclosure requirements across both mining and oil & gas industries**
- Don't provide industry-specific solutions to issues that are widespread across a range of industries



# Project timing

---

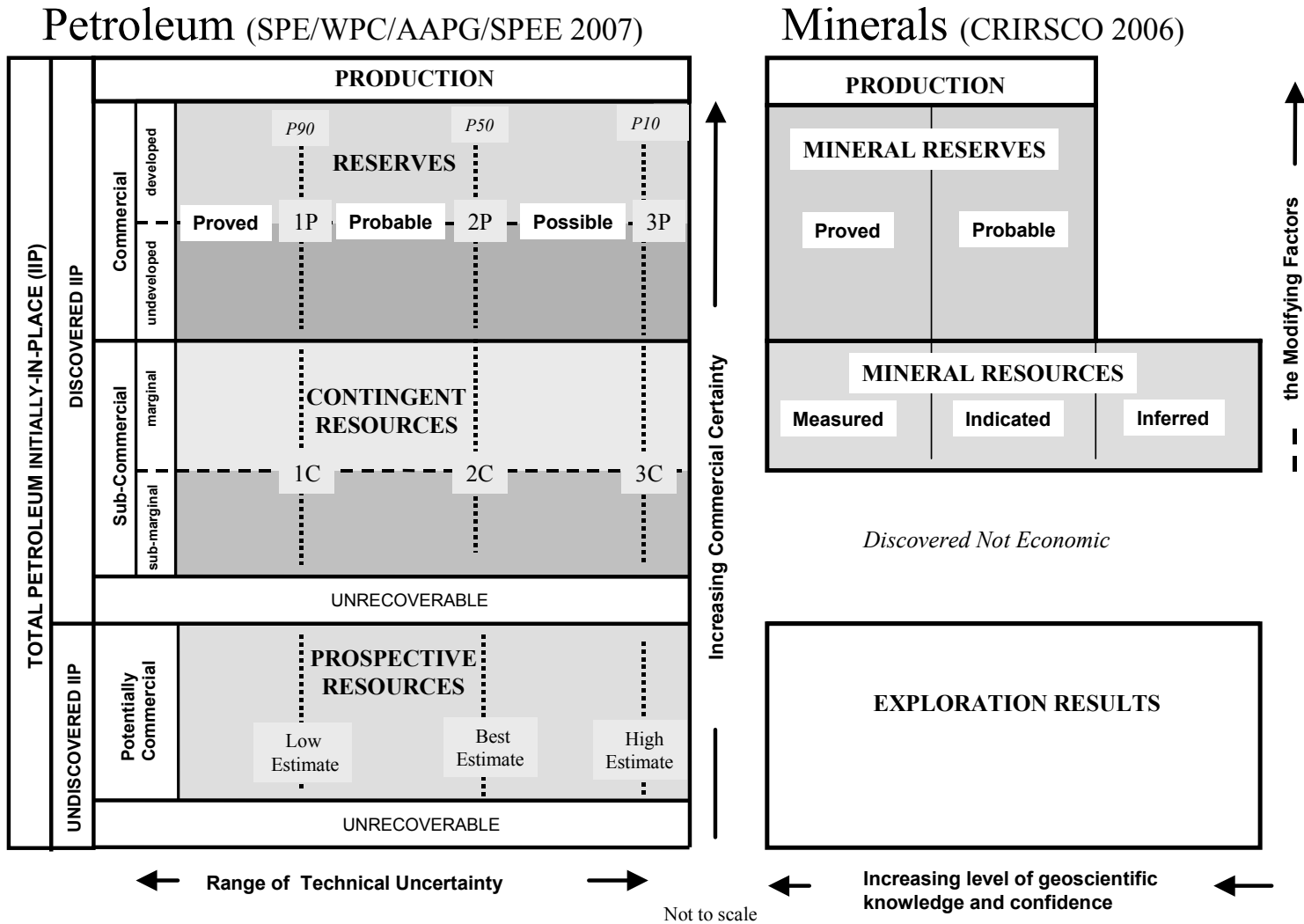
- No more consideration at IASB meetings planned prior to publication of Discussion Paper
- Discussion Paper expected in Q2 2009
  - identify possible accounting and disclosure approaches
  - published as an IASB document but will contain project team views only
  - 6 month comment period (anticipated)
- Discussion Paper is initial due process document for Board's deliberations on extractive activities



- SPE (oil & gas) and CRIRSCO (mining) definitions
  - a “mapping document” explains the similarities (and differences) between the definitions and indicates broad equivalence
  - reserve and resource definitions can therefore support development of a common accounting model across both industries
- Relevance to financial reporting of mapping of SPE and CRIRSCO definitions and UNFC



# Definitions continued



# Asset recognition

- Existing practice is often an expense or capitalise decision according to the extractive activity being undertaken (e.g. exploration, development)
- Research approach is to apply the Framework's asset definition and recognition criteria
- Initial asset recognition is when legal rights to explore a defined area are acquired
- Over time this asset is enhanced by
  - additional rights and approvals (e.g. extraction rights)
  - information from exploration & evaluation activities



- What does this mean?
  - the asset is the rights to the minerals, not the minerals themselves
    - the tangible minerals will be recognised when produced in accordance with IAS 2 *Inventories*
  - costs of E&E activities not expensed as incurred
  - impairment testing necessary (unless current value remeasurement each period)
  - different legal rights arrangements are recognised consistently
    - e.g. 100% interest in mineral rights, a shared interest in mineral rights through a joint arrangement, or a Production Sharing Contract



# Asset measurement

---

- What is the most appropriate measurement basis to use for these assets?
- Historical cost?
  - impairment testing
  - depreciation calculations
- Fair value?
  - approaches for estimating fair value
  - income statement implications
  - frequency of revaluation



- Proposed disclosures include:
  - proved and probable reserve volumes
  - key assumptions associated with estimate
  - explanation of changes in the estimates from year-to-year
  - if asset measurement on balance sheet is:
    - historical cost...a current value measurement and the key assumptions necessary for a user to make use of that measurement
    - fair value...disclosures similar to FAS 157 *Fair Value Measurements*



# What about SEC revisions?

---

- SEC disclosures and the project team's proposals are not the same
  - e.g. SEC only requiring disclosure of proved reserves
- Discussion Paper will seek input on relevance and cost effectiveness of the proposed disclosures compared to the SEC disclosures



# Questions or comments?

---

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

