



Impact of IASB Proposals on Companies and Disclosures

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Harmonization of Fossil Energy and
Mineral Resources Terminology

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Agenda

- ▶ Implications of the principal areas discussed in the paper
 - ▶ Illustrative questions raised in the Discussion Paper
 - ▶ Scope and approach
 - ▶ Reserves and resources
 - ▶ Asset recognition
 - ▶ Unit of account
 - ▶ Measurement and impairment
 - ▶ Disclosure and PWYP
- ▶ Implications of areas not discussed to date

Introduction

- ▶ Implications of Discussion Paper being assessed
 - ▶ Range of interested parties
 - ▶ Significant process remaining ahead of a new standard

- ▶ Complexity in financial reporting for extractive industries

- ▶ Variation in industry practice
 - ▶ Variety of practice under IFRS
 - ▶ Extent of capitalisation of cost of finding, acquiring and developing minerals and oil and gas reserves
 - ▶ Methods of depreciating or amortising related costs
 - ▶ Definition and measurement of minerals and oil and gas reserves and resources
 - ▶ Disclosure
 - ▶ Jurisdiction specific reporting requirements

Scope and approach

- ▶ Scope limited to minerals, oil and natural gas
 - ▶ Exclusion of 'similar non-regenerative resources' (IFRS6)
- ▶ Scope includes all upstream activities, regardless of phase of project
 - ▶ Amendment of scope of IAS 16 and IAS 38 needed
- ▶ Significant areas not currently addressed in detail
 - ▶ Range of industry issues impacting E&E generally included in scope of IFRS6
 - ▶ Eg Carried interests, farm-ins/outs, production sharing contracts
 - ▶ Now fall under other standards despite involving E&E?
 - ▶ Risk sharing arrangements, stripping costs, depreciation, taxation etc
 - ▶ Limited availability of grand-fathering of past practice

Reserves and Resources

- ▶ Proposal to rely on CRIRSCO Template and PRMS with the potential reconsideration of the UNFC
 - ▶ Limits changes to definitions for companies already complying with these standards
- ▶ Inconsistencies with SEC (and other) requirements
 - ▶ Dual compliance?
- ▶ Endorsement of CRIRSCO/ PRMS?
- ▶ Audited?

Asset recognition

- ▶ Current range in asset recognition practice
 - ▶ Exploration expenditure and sub-elements (eg G&G)
- ▶ Potential increase in costs capitalised including those relating to 'unsuccessful efforts'
- ▶ Accounting model not based on phases:
 - ▶ Difficult to provide specific guidance on recognition, measurement and disclosure for specific phases in a project
 - ▶ Disclosure of information about particular phases of project (e.g. exploration/ development costs)
 - ▶ Impairment triggers for different phases of a project.

Unit of Account

- ▶ A key consideration in the accounting for extractive industries
 - ▶ Range of current practice- full cost- area of influence- legal rights- smaller
- ▶ Practical considerations:
 - ▶ How to allocate the unit of account to smaller units in practice?
 - ▶ Trigger points for de-recognition of a unit of account?
 - ▶ Units of account for joint infrastructure?
 - ▶ Treatment of purchased 'potential'?
- ▶ Significant impact for companies currently using larger units of account

Asset measurement

- ▶ Historic cost as doing 'least harm'
 - ▶ Limits impact but useful for decision making?
 - ▶ Alternatives would likely have a profound impact on cost of compliance and output of financial reporting

- ▶ Depreciation
 - ▶ Range of current practice
 - ▶ Reserve base?
 - ▶ Future capex?
 - ▶ Need for symmetry between reserve base used and the cost pool being depreciated

Impairment

- ▶ Impairment testing where there is evidence available that full recovery of an exploration asset is unlikely
 - ▶ Continued relief from IAS 36 (as there is under IFRS6)
 - ▶ Phases are not defined so potential for assets currently tested under IAS 36 to benefit from scope out?
 - ▶ Impairment test currently required at end of E&E phase under IFRS 6
 - ▶ Judgment in assessing 'evidence available'
 - ▶ No further grouping of cash generating units permitted under IFRS6
- ▶ Possible that higher costs carried may increase frequency of impairment testing being triggered

Disclosure requirements (O&G)

	SEC/ US GAAP	Canada	UK SORP	IFRS (Discussion Paper)
Reserves volumes disclosure	Proved, voluntary disclosure of probable, possible By product and geographical area	Proved, probable, (possible)	Proved or proven and probable	Proved and Proved plus probable with voluntary additional disclosures By product by country or project
Pricing assumptions	12 month average. Option for sensitivity analysis	Constant & forecast price	Management view	Forecast prices Sensitivities
NPV disclosure?	10% disc. rate, pricing consistent with reserves Reconciliation	10% disc. rate, constant price 5%, 10%, 15%, 20%, forecast price	No	Standardised measure of proved and probable Reconciliation by geographical area
Additional information?	Including: <ul style="list-style-type: none"> ▶ PUD disclosures ▶ Capitalised costs ▶ Costs incurred ▶ Results of ops ▶ Suspended wells 	Including: <ul style="list-style-type: none"> ▶ Disclosure re new reserves ▶ Costs incurred ▶ Properties & wells ▶ Properties with no attributed costs 	Including: <ul style="list-style-type: none"> ▶ Capitalised costs ▶ Pre-production costs incurred ▶ Results of operations 	Including: <ul style="list-style-type: none"> ▶ Production revenues ▶ Exploration, development, production costs ▶ PWYP

Disclosure requirements (Mining)

	SEC (IG -7)	Canada NI 43-101	IFRS (Discussion Paper)
Reserves volumes disclosure	Proved (Measured), probable (Indicated)	Proved and probable	Proved and Proved plus probable with voluntary additional disclosures By product by country or project
Pricing assumptions	Historical prices – 3 year average.	Key assumptions, parameters, and methods to be disclosed	Forecast prices Sensitivities
NPV disclosure?	No	No guidance	Standardised measure of proved and probable Reconciliation by geographical area
Additional information?	Including: <ul style="list-style-type: none"> ▶ Details and location of property ▶ Titles and licences ▶ Grade and tonnage calculations ▶ Resources not included 	Including: <ul style="list-style-type: none"> ▶ Disclosure re resources ▶ details of exploration properties ▶ Each category of reserve and resource reported separately 	Including: <ul style="list-style-type: none"> ▶ Production revenues ▶ Exploration, development, production costs ▶ PWYP

Disclosures (including PWYP)

- ▶ Potentially voluminous and costly to prepare
- ▶ Challenge in explaining complex geological and engineering issues in a way suitable for inclusion in a set of financial statements
- ▶ Significant 'new' disclosures
 - ▶ Sensitivity analyses for reserves
 - ▶ Value based disclosures for mining companies
- ▶ Commercial sensitivity around level of required disclosure?
- ▶ Audited disclosures?
 - ▶ Disclosure of information in an Appendix that is not part of the audited financial statements?
- ▶ Identification of exploration, development and production costs without defined phases?
- ▶ Potential costs of Publish What You Pay Disclosure proposals

Practical implications

- ▶ Interpretation of a new standard by industry and practice
 - ▶ Revised company accounting policies
- ▶ Costs of adoption and compliance
 - ▶ In house versus specialist involvement
 - ▶ Systems implications

Concluding remarks

- ▶ First step towards a new standard for an industry that has not had comprehensive guidance under IFRS
 - ▶ Implications will continue to be assessed
- ▶ Potential for significant changes in accounting versus current practice
 - ▶ Potentially limited scope to 'grand-father' past practice
- ▶ Depending on final scope, may continue to be significant interpretation due to nature and complexity of industry
- ▶ Potential addition to compliance costs

- ▶ Importance of early comment as the project develops



Thank you

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