

Overview of the IASB's Extractive Activities Research Project

*UNECE Ad Hoc Group of Experts Meeting
11-13 October July 2006*

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Accounting for extractive activities

- Extractive activities project has 2 phases
 - Research phase
 - Active (or standard setting) phase
- Project currently in the research phase
- Research by international project team of accounting standard setters
 - Australia, Canada, Norway & South Africa
- Industry advisory panel assisting with research

Accounting for extractive activities (cont)

- Research scope
 - financial reporting of reserves/resources
 - other extractive activity accounting issues (including those in 2000 IASC Issues Paper)
- Research deliverables
 - Discussion Paper with IASB preliminary views
 - timeframe – mid-to-late 2007

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Accounting for extractive activities (cont)

- Active Project deliverables
 - Exposure Draft
 - International Financial Reporting Standard
 - timeframe uncertain and is dependent on:
 - outcomes of Discussion Paper
 - IASB agenda

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Financial reporting of reserves/resources

Key issues...

1. Can and should reserves/resources be recognised as assets at their fair values?
2. If not, should pre-development costs be capitalised or expensed?
3. Should reserves/resources information be disclosed? If so, what information?
4. How should reserves/resources be defined?

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(1) Recognising reserves/resources as assets

- Do reserves/resources meet the definition of an 'asset'?
 - does the company *control* the reserve/resource?
- Is the asset capable of being recognised?
 - are future economic benefits *probable*?
 - can the fair value of reserves/resources be *measured reliably*?
- Which categories of reserves/resources should be recognised and measured?

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(1) Recognising reserves/resources as assets (cont)

- What would be the impact on *comparability* and *verifiability* of financial reports if reserves/resources are fair valued?
- How often should they be revalued?
- How should changes in fair value be treated?
- Should costs incurred prior to discovery of reserves/resources be expensed or capitalised?

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(2) Not recognising reserves/resources as assets

- Should pre-development costs be expensed or capitalised?
 - If expensed...
 - should those expenses be able to be reinstated?
 - If capitalised...
 - what is the cost centre
 - what costs should be capitalised
 - how should those costs be subsequently measured and assessed for impairment

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(3) Reserve/resource disclosures

- Whether different types of mineral reserves/resources should be disclosed separately?
- What categories of reserves/resources should be disclosed?
- Disclose quantities and/or values (e.g. standardised measure of proved reserves)?
- Other disclosures?

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(4) Defining reserves/resources

- No single agreed definition of reserves or resources for the extractive industries
- Definition systems used by companies:
 - for oil & gas
 - SPE/WPC/AAPG
 - US SEC Regulation S-X, Rule 4-10
 - for mining
 - CRIRSCO equivalents (JORC, SAMREC etc)
 - US SEC Industry Guide 7
- Other systems:
 - UNFC

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Tentative conclusions so far

For the definition of reserve/resources...

- consider developing an **overarching/generic** definition of “resources” to support the balance sheet treatment of reserves/resources
 - either at historical cost or fair value
 - should be suitable for both mining and oil & gas
- use **existing definitions** for the disclosure of reserve/resource information

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Tentative conclusions so far

(cont)

- ask CRIRSCO (mining) and SPE (oil & gas) to identify opportunities for converging elements of their definitions that may not need to be different between industries or with accounting principles
- select the preferred reserves/resources definitions on the basis of which provides **the most useful information to users**

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Current research

- The project team are currently considering the:
 - application of the IASB *Framework's* definition and recognition criteria to reserves/resources
 - usefulness and reliability of reserve/resource volume and value estimates
 - potential applicability of various historical cost models to reserves/resources
 - CRIRSCO/SPE convergence work

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Uses of reserves/resources

- Financial reporting may use the definitions to:
 - Pinpoint initial recognition of the asset
 - Explain life of mine / field estimates
 - Set parameters for property valuation
 - Disclosures

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