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Overview of the IASB' Extractive Activities Research project

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Audit. Tax & Legal. Consulting. Financial Advisory.

Accounting for extractive activities

- The “comprehensive” project
 - to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources* – the “interim” Standard
- Project currently in the research phase
- **Scope of research:**
 - financial reporting of reserves/resources
 - other extractive activity accounting issues (including those in 2000 IASC Issues Paper)

Accounting for extractive activities

- Research Project deliverables:
 - Discussion Paper with IASB preliminary views
 - timeframe – late 2007
- Active Project deliverables:
 - Exposure Draft
 - International Financial Reporting Standard
 - timeframe uncertain and is dependent on:
 - outcomes of Discussion Paper
 - IASB agenda

Accounting for extractive activities (cont)

- An international project team is progressing the research phase
- The project team comprises
 - Australia – leading
 - Canada
 - South Africa
 - Norway
- Advisory Panel is assisting project team

Financial reporting of reserves/resources

Key issues...

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

(1) Defining reserves/resources

- No single agreed definition of reserves or resources for the extractive industries
- Definitions used by companies include:
 - for oil & gas
 - SPE/WPC/AAPG
 - US SEC Regulation S-X, Rule 4-10
 - for mining
 - JORC Code and equivalents in Canada, South Africa, UK
 - US SEC Industry Guide 7
- New definitions include:
 - CRIRSCO (an international version of JORC) & UNFC

(1) Defining reserves/resources (cont)

- Should existing definitions be used? If so, which definitions?
- Or, should the IASB develop its own definitions (in conjunction with others)?
- Would the use of different definitions for mining and oil & gas adversely affect comparability of financial reports?
 - there are some significant differences between the major mining and oil & gas definitions

(2) 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?

(2) 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?

(3) 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

(4) 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?

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

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
 - Joint working group established
- select the preferred reserves/resources definitions on the basis of which provides **the most useful information to users**

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

Current research

- Received input from Advisory Panel, representing preparers and users, to:
 - understand the process used by the industry to prepare reserve/resource estimates (both volume and value estimates)
 - determine whether the estimates provide reliable information
 - determine what types of volume and value information are useful to users

Current research

- Some of the feedback from users and preparers:
 - Concerned that fair value would be too unreliable due to the inherent uncertainty contained in the volumetric estimates of an entity's reserves and resources
 - Concerns were also expressed that fair value provides a somewhat subjective account of an entity
 - Business combination and impairment fair value not considered to be representative of year-end fair value
 - There is no value in the standardised measure
 - There is value in the standardised measure
 - An entities cash and reserve/resource volumes are the primary interest to investors

Current research

- Why fair value of reserves and resources?
 - The most important asset of an oil & gas company
 - Fair value higher acceptance
 - Fair value the emerging measuring objective
 - Relevance of higher importance than reliability (?)

Current research

Next step is to seek direction from IASB (September 2006)

- Continue to explore use of fair value or use historical cost?
 - Disclosure requirements
 - Under a fair value model, historical cost disclosure
 - Under historical cost model, disclosure fair value

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