



Australian Government

Australian Accounting Standards Board

Extractive Activities: Project update

AASB M168 November 2018

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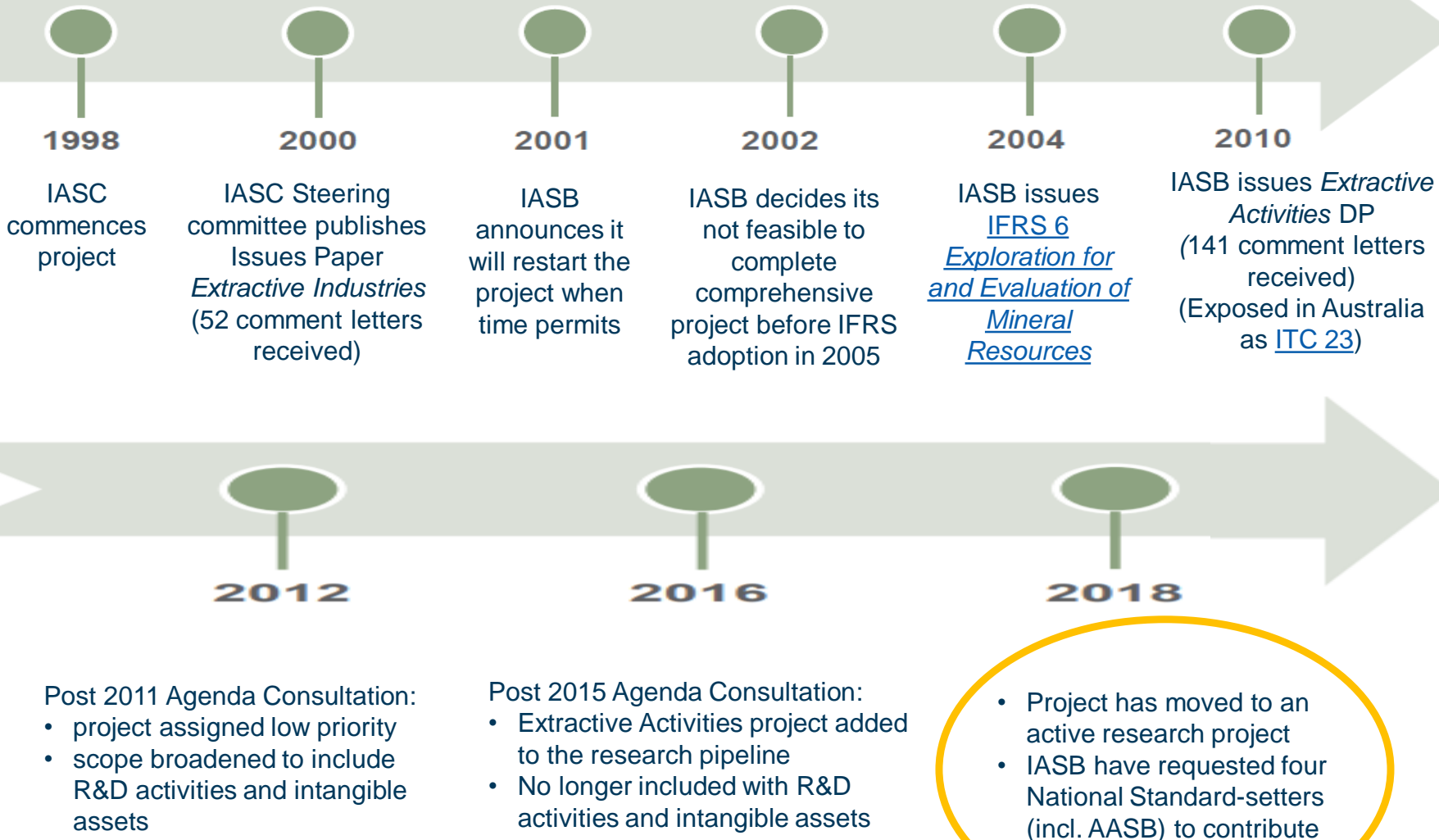
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The objective of this Board Paper is to:

- **inform** the Board of the IASB's outreach request to the AASB for its *Extractive Activities* project; and
- **obtain feedback** from the Board on research questions and the direction of the project.

- Consist of exploring for, evaluating, developing and producing natural resources such as **minerals**, **oil** and **gas**.
- **particularly significant** to Australia as mining is one of the most important industries to the Australian economy.
- **Various** accounting models are used to report resources and expenditures associated with extractive activities.
- Diversity in financial information **hinders investors** from understanding the financial position and financial performance of companies with extractive activities.

The IASB's Extractive Activities project timeline



- IASB is discussing project with National Standard-setters (Australia, Canada, Norway and South Africa) (**Sep-Nov 2018**)
 - IASB has requested an update of significant changes in extractive activities since its 2010 Discussion Paper
- IASB staff held refresher sessions at ASAF, IFASS and the EEG (**October 2018**)
- Extractive Activities will be discussed at the IASB's Research Forum in Sydney (papers requested) (**November 2018**)
- IASB education sessions/discussions to commence (**early 2019**)

What are AASB staff doing to help?

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- Providing feedback on IASB's terms of reference
- Facilitating outreach between the IASB and Australian preparers, accounting firms and users
- Obtaining Australian panellists for the IASB's 2018 Research Forum
- Engaging academics to perform research on Extractive Activities for the AASB's 2019 Research Forum

The IASB has requested input from the AASB on the following (by **30 November 2018**):

- Have there been significant changes in extractive activities since the IASB issued its 2010 *Extractive Activities DP*?
- If there have been significant changes, have these changes affected the findings from the 2010 *Extractive Activities DP*?
- What, if any, additional work should the IASB consider doing as a result of the above changes?

Question 1 for the Board:

Do Board members have feedback on the what the IASB is asking in the research questions included in the IASB's Terms of Reference (see Agenda Paper 12.2 for the full Terms of Reference)?

How the AASB is assisting the IASB with outreach

Outreach with Ann Tarca (IASB Member) and Users – 2 November 2018:

- Roundtables and individual meetings - written feedback also requested

Outreach with Tim Craig (IASB Staff) and Preparers – 9 November 2018:

- Roundtables and individual meetings - written feedback also requested

Outreach with Tim Craig (IASB Staff) and Audit firms – 8 November 2018:

- Individual meetings - written feedback also requested

IASB Research Forum panellists – 11 and 12 November 2018

- Panellists include a KPMG Audit Partner, two CFO preparers (Realm Resources and Northern Star), an analyst from WA Company Monitoring Company and three researchers, one from University of Sydney and two from Stockholm School of Economics

AASB Research Forum – November 2019

- Research team working on paper exploring current accounting practice in Australia

Question 2 for the Board:

Do Board members have feedback on the AASB's involvement in the IASB outreach?

- [Link](#) to the 2010 Discussion Paper exposed in Australia as Invitation to Comment ITC 23 *Request for Comment on IASB Discussion Paper DP/2010/1 Extractive Activities* [April 2010] (alternatively see Agenda Paper 12.3 in the supporting folder)
- [Link](#) to the AASB's submission to the IASB on DP/2010/1
- [Link](#) to the IASB's refresher presentation Extractive Activities (October 2018)
- IASB's Terms of Reference – attached as Agenda Paper 12.2

- Staff have gathered the following preliminary feedback from outreach with preparers, based on the following questions asked in the October 2018 ASAF Agenda Papers:
 - significant changes in extractive activities since the Discussion Paper that they think the Board should be aware of as it starts its research
 - views on whether users understand the diversity of accounting practice for extractive activities and how they cope with this diversity

Q1 - significant changes in extractive activities since the 2010 Discussion Paper *Extractive Activities* that the Board should be aware of as it starts its research

Scope

Suggestions that the scope be extended to explore additional guidance for specific arrangements unique to extractives such as:

- Joint working arrangements (including farm-outs, unitisations and production-sharing contracts);
- Revenue recognition for overlift and underlift of oil and gas¹ – this is currently also part of upcoming IFRIC outreach; and
- Decommissioning and restoration activities.

Definitions of reserves and resources

General support for the use of CRIRSCO and PRMS classification systems for reserve and resource definitions (in the absence of specific guidance). However, with the continued growth in the Coal, Seam and Gas (CSG) industry in Australia, the use of these definitions for calculating impairment and depreciation / amortization / depletion warrants further attention and clarification.

Reference to such definitions should be included in a Standard to ensure consistency.

1 Many joint ventures (JV) share the physical output, such as crude oil, between the joint venture partners. Each JV partner is responsible for either using or selling the oil it takes. The physical nature of production and transportation of oil is such that it is often more efficient for each partner to lift a full tanker-load of oil. A lifting schedule identifies the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). Overlift and underlift are in effect a sale of oil at the point of lifting by the underlifter to the overlifter.

Q1 (cont.) - significant changes in extractive activities since the 2010 Discussion Paper *Extractive Activities* that the Board should be aware of as it starts its research

Recognition

Agreement that recognition of assets should be based on which party has control over the assets (which may be based on legal rights or other factors), and that recognition of costs should be based on use of existing methods. We believe this method most closely aligns to the IFRS framework in terms of assessing likelihood or probability of obtaining future economic benefits from an asset.

However, acknowledgement of inconsistent treatment adopted by different entities in their approach to asset recognition, e.g. successful efforts versus full costs approach. For this reason, the basis of recognition of exploration assets and treatment of subsequent costs should be revisited.

Unit of account

More guidance should be provided to determine what the unit of account represents and how it is aggregated, including guidance where there is linkage to another nearby production facility / area / pipeline.

Measurement

Suggestion that a fair value model could be used to value the assets, however note that would likely entail significant additional cost and increase volatility in the financial statements.

Appendix B – preliminary feedback

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Q1 (cont.) - significant changes in extractive activities since the 2010 Discussion Paper *Extractive Activities* that the Board should be aware of as it starts its research

Depreciation/Impairment

Depreciation: suggestion for further guidance especially in relation to the definition of reserves (i.e. whether to use proved reserves or proved and probable reserves while using the unit of production method).

Impairment: AASB suggest consideration should be given to more specific examples of indicators of impairment due to significant amount of management judgment and estimates involved (for example, by including sector specific guidance under IAS 36 Impairment of Assets)

Disclosures

Support for earlier feedback that some disclosures that are currently required by local regulators in Australia (e.g. through Annual Reserves Report and Quarterly Production Report required by Australian Securities and Investments Commission (ASIC) and Australian Securities Exchange (ASX)) may lead to duplication of information. The level of disclosures should not unfairly disadvantage extractive industry as compared to others.



Q2. Views on whether users understand the diversity of accounting practice for extractive activities and how they cope with this diversity

Users' understanding

AASB staff have been advised based on preliminary outreach that there are areas of diversity in practice. Examples include:

- Successful efforts approach being used versus the full costs approach
- Nature of reserves included in depletion/amortisation profiles on a unit of production basis differ
- Treatment of workovers (analogous to overhaul costs) with some entities capitalising and others expensing these costs
- Accounting for revenue from situations in which one party in a gas sharing agreement may overlift or underlift gas with respect to their ownership share during the contract term

In view of the AASB Staff, users have different levels of understanding and information requirements.

For example, based on preliminary outreach, AASB Staff have been advised that brokers/analysts are generally more familiar with the accounting practices used by different companies and thus, adjust accordingly when assessing performance across the sector. However, other users generally do not seem to have a firm understanding of the diversity in accounting practice among industry participants which is exacerbated by the lack of accounting guidance in this space.