

Potential changes to financial reporting for mining and oil & gas entities

What is the issue?

On Monday the International Accounting Standards Board (IASB) published a draft discussion paper (draft DP) on accounting for extractive industries. The draft DP is the first step in the IASB's plan to develop a new standard for accounting for extractive assets, which would replace the current guidance in IFRS 6 *Exploration for and evaluation of mineral resources* (equivalent to AASB 6).

The IASB's decision to publish a draft DP is an unusual step, and it is unclear whether the recommendations will change prior to the IASB's formal publication of the discussion paper in early 2010.

Which entities are impacted?

All entities in the mining and oil & gas industry.

What are the five key recommendations in the draft discussion paper?

1. A single financial reporting model should be available for all mining and oil & gas activities. Currently there is divergence in practice in the accounting for exploration, development and production of minerals and oil & gas because AASB 6 allowed entities adopting IFRS to continue to apply their existing accounting policies.
2. Reserves and resources definitions for financial reporting should be the definitions developed by the Committee for Mineral Reserves International Reporting Standards and the equivalent definitions of the Society of Petroleum Engineers. Currently IFRS reporters adopt their own national codes and definitions, which can make it difficult for users of entities' accounts to compare information. For example, in Australia entities apply the JORC guidelines, but these guidelines are not typically applied by entities in other countries.
3. Mineral and oil & gas assets should be recognised when an entity has acquired the legal right to explore. Under the draft DP, information gained from exploration and evaluation activities, as well as development activities, would represent enhancement of the exploration / reserves and resources asset. Current practice in this area is diverse with entities expensing the costs in a number of different ways. Under the draft DP, there would be more capitalisation of expenses, which would increase the risk of asset impairment. Entities would need to assess their assets for impairment whenever evidence is available to suggest that full recovery of the carrying amount of an exploration asset is unlikely. This differs from the impairment rules under AASB 136.
4. Mineral and oil & gas assets should continue to be measured at historical cost, supplemented by disclosure of the volume and current value of reserves.
5. Significantly more detailed disclosures should be required about:
 - i. Either the current value or fair value measurement of proved and probable reserves, by major geographical region. If this requirement is endorsed by the IASB, it would present resources entities with a significant disclosure challenge.
 - ii. Reserve quantities (by commodity and by country or project where material)
 - iii. Production revenues by commodity
 - iv. Costs, disaggregated in the same way as reserve quantities, with a five-year track record of exploration costs, development costs, and production costs.

What do I need to do?

The draft DP is available at www.iasb.org (see Projects / Extractive activities). The formal discussion paper is expected to be issued in Q1 2010, with a six month comment period. That gives entities approximately 12 months from now to analyse and digest the recommendations, assess the practical consequences, and respond to the IASB. Now is the time to start to explore the impact on your business.

What does the draft discussion paper mean for your business? Free events for clients.

PwC will be hosting roundtable events with mining and oil & gas clients to discuss how the draft DP will affect them. The events will run nationally in September/October 2009. To register your interest in attending your local event, please email ifrs.communications@au.pwc.com.