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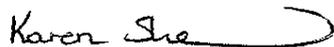
7 July 2010

Dear Mr Enevoldsen

IASB DISCUSSION PAPER 2010/1: EXTRACTIVE ACTIVITIES

The Institute's Accounting Standards Committee has considered the above exposure draft and is pleased to forward a copy of the response letter to be submitted to the IASB – please see attached.

Yours sincerely



KAREN SHAW
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

KS/ASC-SUB/ks-mb

THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

7 July 2010

Dear Sir David,

IASB DISCUSSION PAPER 2010/1: EXTRACTIVE ACTIVITIES

The Institute's Accounting Standards Committee has considered the above exposure draft and I am pleased to forward its comments to the IASB.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The Committee supports the objective of developing guidance for companies operating in extractive industries. However we do not believe that the Discussion Paper has sufficiently explained how an industry-specific standard such as that proposed meets the objective set out in the IFRS Foundation Constitution of creating a set of financial reporting standards based on "clearly articulated principles". We understand that there are unique accounting issues when applying existing IFRS to extractive activities but these would be more appropriately dealt with through application guidance.

If the IASB is to propose an IFRS for extractive activities we would not support the use of technical industry terminology. Any standard must be based on clear principles and must be capable of translation and understanding by all constituents – the use of industry jargon may not be easily understood in every jurisdiction.

The measurement and recognition proposals contained within the Discussion Paper do not appear to be consistent with the Framework. In addition, we do not feel that the proposal to apply impairment rules other than those within IAS 36 has been sufficiently justified and again departs from the Framework definition of an asset.

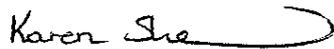
We believe that the proposed disclosure requirements are excessive and are not justified on cost-benefit grounds. Also, much of the information would be more suited to inclusion within the annual report as opposed to the financial statements, such as disclosure of resource quantities. The IASB has already developed a number of well established principles through existing standards such as IFRS 7 and we believe that there would be merit in adapting these disclosure principles rather than creating a whole new set of requirements.

Finally, although we understand the rationale behind Publish What You Pay, we do not believe that the annual financial statements are the most appropriate place for this information. Also there is a risk that the IASB is responding to pressure from political interest groups rather than developing a set of principles-based standards in accordance with the Framework to meet the needs of all users. We do not believe it is appropriate to include discussion about Publish What You Pay in a paper on Extractive Activities. We believe the Publish What You Pay debate has important and far wider reaching consequences and therefore due process demands that proper consultation is required.

Our responses to the specific questions can be found in the annex to this letter.

I hope our comments are useful to you. If you wish to discuss anything further please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Karen Shaw". The signature is written in a cursive style with a long, sweeping underline.

KAREN SHAW
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

ANNEX: RESPONSES TO SPECIFIC QUESTIONS

Question One – Scope of extractive activities

In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas. Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

ICAS does not believe that the project team have justified why extractive activities are sufficiently different to other industries with substantial up-front research and development expenditure, such as the pharmaceutical industry. We fully support financial reporting standards based on a set of globally accepted high level principles and we do not believe that an IFRS for extractive activities is justified on these grounds. We would however support industry-specific guidance for extractive activities which is authoritative but we believe that it would be more appropriate for such guidance to be given in the context of existing IFRSs such as IAS 16 and IAS 38.

The scope proposed is appropriate for guidance on extractive activities and we would not propose any change to the scope.

Question Two – Approach

Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

Although we agree that there is a need for appropriate disclosure of extractive activities, we do not believe an industry-specific accounting standard is appropriate.

In terms of developing appropriate guidance, we agree that the proposed scope should include both the minerals industry and the oil and gas industry.

Question Three – Definitions of minerals and oil and gas reserves and resources

In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

We are concerned at the use of technical industry terminology and we do not believe it is appropriate within an IFRS. A set of high level principles should be developed, leaving the industry to develop its own interpretation of those principles. We do not believe that the IASB

has sufficient expertise to develop such detailed guidance.

Question Four – Minerals or oil and gas asset recognition model – recognition

In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a ‘minerals or oil and gas property’. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights. Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised initially?

The Committee does not support the use of an asset definition which is not consistent with the Framework definition and we do not believe that separate recognition and measurement criteria are justified. In particular we are concerned about the removal of the probability criterion from the capitalisation requirements.

Question Five – Minerals or oil and gas asset recognition model – unit of account selection

Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team’s view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The project team’s view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

We do not believe that it is appropriate to define a “unit of account” in an IFRS – any definition should be included within the Framework. We do not believe that there is sufficient justification for such a definition within this standard. We also note that the proposal to place restrictions on the “unit of account” is not consistent with a principles-based standard and management should be allowed to exercise their judgement within the context of the relevant standard and the Framework.

Question Six - Minerals or oil and gas asset measurement model

Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties. The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information. The project team’s view is that these

assets should be measured at historical cost but that detailed disclosure about the entity's minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

The Committee agrees with the proposal to measure assets at historical cost, in line with other non-financial assets. We would also support a suitable disclosure framework to provide users with appropriate information.

Question Seven – Testing exploration properties for impairment

Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 Impairment of Assets. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties, management should:

- (a) write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and*
- (b) apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.*

Do you agree with the project team's recommendation on impairment? If not, what type of impairment test do you think should apply to exploration properties?

We are particularly concerned at the implications of the impairment proposals – it appears the result would be a presumption that an asset exists until it can be proved otherwise. This is entirely inconsistent with the Framework definition of an asset and could have consequences beyond extractive activities.

We agree that using the asset recognition criteria proposed in the Discussion Paper would result in problems applying the IAS 36 impairment rules. However, we believe that, rather than require different impairment indicators, this further demonstrates the inappropriateness of the recognition criteria and the asset continuum approach.

Question Eight – Disclosure objectives

In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:

- (a) the value attributable to an entity's minerals or oil and gas properties;*
- (b) the contribution of those assets to current period financial performance; and*
- (c) the nature and extent of risks and uncertainties associated with those assets.*

Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

We agree that disclosures are particularly important for extractive activities where there are such significant risks and uncertainties and we broadly support the disclosure objectives.

Question Nine – Types of disclosure that would meet the disclosure objectives

Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:

- (a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;***
- (b) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;***
- (c) a reconciliation of changes in the estimate of reserves quantities from year to year;***
- (d) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;***
- (e) separate identification of production revenues by commodity; and***
- (f) separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).***

Would disclosure of this information be relevant and sufficient for users? Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

We believe that the disclosures proposed are too onerous. Much of the information would be more suited to inclusion within the annual report as opposed to the financial statements, such as disclosure of resource quantities. We note that more sophisticated users of the financial statements will take the information in the financial statements and apply their own modelling procedures – we therefore question the utility of the proposed sensitivity analysis. In addition, having ruled out the use of current value measurement on cost-benefit grounds it would not then be appropriate to require disclosure of such information in the notes.

Also, as indicated in response to Question 3, we would not support the use of technical industry-specific terminology. Any standard must be based on clear principles and must be capable of translation and understanding by all constituents. The use of such industry “jargon” may not be easily understood in every jurisdiction.

The IASB has already developed a number of well established principles through existing standards such as IFRS 7 and we believe that there would be merit in adapting these disclosure principles rather than creating a whole new set of requirements.

Question Ten – Publish What You Pay Proposals

Chapter 6 discusses the disclosure proposals put forward by the Publish What You Pay coalition of non-governmental organisations. The project team’s research found that the

disclosure of payments made to governments provides information that would be of use to capital providers in making their investment and lending decisions. It also found that providing information on some categories of payments to governments might be difficult (and costly) for some entities, depending on the type of payment and their internal information systems.

In your view, is a requirement to disclose, in the notes to the financial statements, the payments made by an entity to governments on a country-by-country basis justifiable on cost-benefit grounds? In your response, please identify the benefits and the costs associated with the disclosure of payments to governments on a country-by-country basis.

The Committee understands the rationale behind the Publish What You Pay Campaign and the desire to place such information in the public domain, particularly with more participants in the capital markets making investment decisions based on ethical considerations. However, we are not convinced that the financial statements are the most suitable place for such detailed information. Financial statements are a general purpose document and country-by-country reporting is of interest to a very specific group of investors. This type of information would be more suited to publication on a company's website.

We would also like to point out that we do not believe it is appropriate to include discussion about Publish What You Pay in a discussion paper on Extractive Activities. We believe the Publish What You Pay debate has important and far wider reaching consequences and therefore due process demands that proper consultation is required.