DRAFT COMMENT LETTER

Comments should be submitted by 2 July 2010 to Commentletters@efrag.org

XX Month 2010

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Re: Discussion Paper *Extractive Activities*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Discussion Paper *Extractive Activities* (the DP). This letter is submitted in EFRAG's capacity of contributing to the IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

EFRAG supports the IASB's objective of developing guidance for companies in extractive industries in applying IFRS. We are aware of the diversity in accounting practices across jurisdictions and within the extractive industries. We are also aware of the many difficulties that these entities face in applying current IFRSs in instances where IFRS 6 *Exploration for and Evaluation of Mineral Resources* does not apply. We would urge the IASB to continue to research financial reporting in the extractive industries and to provide the relevant accounting guidance where necessary. Overall, we do not believe that this DP addresses all the necessary accounting issues for these industries.

EFRAG supports the following proposals in the DP:

(a) the industry scope to the extent that they are conducive to similar disclosure requirements. We support this because of similarities in the relative risks and rewards in the mineral and oil and gas industry and the ability to apply similar quantitative measures that we understand are different from other industries;

(b) the use of historical cost as the measurement basis for extractive activities;

(c) the development of a disclosure suite for extractive activities as relevant disclosures for these activities currently do not exist in IFRS.

However, we have several significant concerns regarding the proposals in the DP:

(a) There is no clear rationale in the DP for the development of an accounting model for extractive activities that is different from that for other industries such as the pharmaceutical or software industry. EFRAG urges the IASB to assess whether or not current IFRSs can be applied to extractive activities, albeit with application guidance where necessary, before a separate accounting model is developed;

(b) The use of CRIRSCO and SPE definitions may have unintended governance and/or endorsement implications. We believe that it is possible to develop principle-based definitions that would allow participants to apply the methodologies as stipulated by these and other specialist industry bodies;

(c) EFRAG does not support the use of an asset definition that differs from the current Framework definition. Furthermore, EFRAG does not support the omission of the probability recognition criterion in the capitalisation of information, or the asset continuum approach to asset recognition as it is proposed;

(d) The DP has not convinced us that the impairment proposals are superior to the application of IAS 36 *Impairment of Assets*. In fact, the need for separate guidance is in our mind further indication that the recognition proposals are not appropriate. Furthermore, we are very concerned about the precedent that the proposals may set – an asset exists until proven otherwise;

(e) We oppose fair value measurement or disclosures for extractive activities. EFRAG understands from the DP, and from our interaction with users, that current value disclosures in financial statements would not be relied upon as such, but would serve as a reference point for the user's own calculations. EFRAG believes that the reserve quantity disclosures could also provide such a reference point;

(f) The proposed disclosures are voluminous and often overlap. We would urge the IASB to focus on the disclosure objectives to avoid requiring costly disclosures that aim to achieve the same objective. One such example is the disclosure of assumptions for both reserve quantity disclosures and the related current value of the disclosures;

(g) We oppose reserve quantity disclosures based on standardised inputs if this requires entities to disclose reserve quantities that are not used for management purposes. We do not believe that such disclosures provide relevant and decision useful information; and

(h) We believe that the objective of financial statements is to provide decision useful information to investors and other capital market participants. Therefore, we support the Publish What You Pay (PWYP) disclosure proposals where they meet this objective.

If you wish to discuss our comments further, please do not hesitate to contact Marius van Reenen or me.

Yours sincerely

Francoise Flores
EFRAG, Chairman

Appendix

EFRAG's response to the questions asked in the DP

SCOPE OF EXTRACTIVE

Question 1

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.

Notes for EFRAG's constituents

1 *The DP addresses financial reporting issues associated with upstream extractive activities. This includes exploring for and finding minerals, oil, and natural gas deposits, developing those deposits and extracting those commodities.*

2 *The scope of the DP differs from that of IFRS 6 Exploration for and Evaluation of Mineral Resources which includes minerals, oil, natural gas and other similar non-regenerative resources within its scope. The DP argues that mineral and oil & gas deposits have similar risks, processes or phases and accounting concepts. Other activities may have some similar characteristics, but are not strictly non-regenerative or face different risks. Accordingly, including these other items would have implications for the design of an IFRS for extractive activities.*

EFRAG's draft response

EFRAG's view:

- The project scope is appropriate for disclosure purposes, but the DP fails to provide a rationale for developing a separate accounting model for extractive activities.
- The DP excludes from its scope key accounting issues that account for the greatest difficulty in practice such as production sharing agreements, farming arrangements and exchanges of leases and information.

3 EFRAG shares the project team's conclusion that the minerals and the oil & gas industries have very similar risks and activities. EFRAG agrees with the industry scope of this project to the extent that it covers disclosure requirements for upstream minerals, oil and natural gas activities. EFRAG also agrees that only the upstream activities of these industries should be addressed. We acknowledge that entities in these industries usually have information about physical reserves that is useful to users and unique to these industries.

4 Having said that, EFRAG is concerned about the accounting treatment of those other activities that are currently within the scope of IFRS 6 but that are not addressed in this DP. It is unclear how these activities will be treated in the future. EFRAG believes that it would be best if the IASB clarifies its intention in this regard. In the absence of proposals to the contrary EFRAG would support the application of current IFRS to these activities.

5 EFRAG also finds that the DP fails to address those accounting issues that are creating practical difficulties for preparers, auditors and users. Among these issues are accounting for production-sharing agreements, farming arrangements and exchanges of leases or information. EFRAG would urge the IASB to consider these transactions in developing future accounting guidance irrespective of whether a separate IFRS for extractive activities is developed.

APPROACH

Question 2
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?

Notes for EFRAG's constituents

6 *This research project was carried out under the following research parameters:*

(a) Common requirements across the minerals and oil & gas industries – although there are differences between these industries (specifically the extraction processes and definitions of reserves and resources), the main business activities and geological risks and uncertainties are similar.

(b) Avoid issues of general application – the DP focuses on unique extractive activities issues. It therefore does not address the accounting for inventory, revenue, decommissioning and restoration liabilities and joint arrangements.

(c) The Framework – the project team have not been constrained to the application of current IFRS to extractive activities. Rather, the project is undertaken in the context of the Framework.

(d) Scope of financial reporting – the DP focuses on financial information that helps users of financial reports to make decisions, fits into the broader scope of a complete set of financial statements and meets a cost benefit test.

EFRAG's draft response

EFRAG's view:

- EFRAG supports a single extractive activities model only to the extent that it applies to disclosure requirements,
- A separate accounting model would only be justified if a clear rationale could be developed that supports this.

7 EFRAG is a firm supporter of principle-based accounting standards. Such standards should therefore be applicable irrespective of the industry in question. EFRAG finds that the DP does not develop a clear rationale for proposing a separate recognition and measurement model for extractive activities. Therefore, EFRAG does not support the development of a separate IFRS for extractive activities beyond disclosure requirements based on the arguments put forward in this DP. Our detailed comments in this regard can be found in Question 4.

8 EFRAG does however support a single extractive activities model to the extent that it applies to a disclosure model. Such support is based on the similarities in risk, processes and rewards that have resulted in comparable practices evolving for both industries notwithstanding the lack of guidance to achieve this. Our detailed comments in this regard can be found in Question 8 and 9.

DEFINITIONS OF MINERALS AND OIL & GAS RESERVES AND RESOURCES

Question 3

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?

Notes for EFRAG's constituents

9 *The project team considered two broad approaches to developing definitions to reserves and resources – use established industry definitions or develop new definitions. They elected to pursue the former citing the following reasons:*

(a) The IASB does not have the prerequisite technical expertise in geology and engineering disciplines to be able to develop comprehensive definitions;

(b) Such definitions would have to be maintained by the IASB; and

(c) The use of definitions other than those used by geologists and engineers is likely to result in confusion.

10 *The project team considered the definitions of Committee for Mineral Reserves International Reporting Standards (CRIRSCO), the Society of Petroleum Engineers (SPE), the Society of Petroleum Engineers (SPE) and the United Nations Framework Classification for Fossil Energy and Mineral Resources (UNFC). Based on their research they propose to use the CRIRSCO and SPE definitions as these are the most widely used in the mining and oil and gas industries respectively.*

EFRAG's response

EFRAG's view:

- Principle-based definitions for reserves and resources should be developed rather than endorsing the definitions of third parties. The DP already contains the building blocks of such definitions.

11 EFRAG does not support this proposal in the DP. Rather, EFRAG would urge the IASB to develop principle-based definitions of reserves and resources that would allow entities to apply the relevant geological and engineering codes as maintained by recognised industry bodies. The DP already provides an example of such a definition in paragraph 2.4. Principle-based definitions can be based largely on the summaries of the CRIRSCO and PRMS models as discussed in paragraph 2.29 of the DP. A similar exercise could be performed for resources and the other sub-definitions. Alternatively, the SPE and CRIRSCO could be asked to perform an exercise to develop such definitions based on their models.

12 Such an approach would not complicate the accounting and disclosure model developed in any future IFRS. EFRAG suspects that approach currently proposed may have unintended governance and endorsement implications.

MINERALS OR OIL & GAS ASSET – RECOGNITION

Question 4

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 and when should they be recognised initially?

Notes for EFRAG's constituents

13 *An asset, for the purposes of the DP, is defined as something that has enforceable rights that enable an entity to access or deny (or limit) the access of others to the economic resource (in other words, the economic resource can be controlled), has positive economic value (in other words, future economic benefits are expected) and currently exists. The DP argues that these are the core component of both the current Framework definition of an asset and the proposed new definition currently under consideration in the IASB/FASB asset definition project.*

14 *Furthermore, the DP notes that an asset is only recognised when it is probable that future economic benefits will flow to the entity, and the asset has a cost or value that can be measured reliably. Having said that, they note in recent projects the IASB has shown a tendency to address the probability criterion through measurement rather than recognition.*

15 *The project team continues to discuss the significant classes of items that may be assets within extractive activities.*

Legal rights

16 *Legal rights are property titles, lease or concession arrangements or production sharing contracts per the DP.*

17 *The project team argues that legal rights are enforceable rights that currently exist. Furthermore, the rights have positive economic value because they allow an entity to conduct exploration and/or extractive activities or preclude others from doing so. They therefore conclude that it meets the asset definition.*

18 *In accordance with IAS 38, paragraph 25, the project team argues that the price an entity pays to acquire an intangible asset reflects its expectations about the probability of future economic benefits. In addition, they argue that the cost of separately acquired intangible assets can normally be reliably measured in a historical cost measurement environment. This is in accordance with IAS 38, paragraph 26. The project team therefore concludes that legal rights are assets that meet the recognition criteria.*

Information, additional rights and properties in the development or production phase

19 *Information is primarily the result of exploration and evaluation activities. The project team also argues that the decision to acquire a right implies that some information is available even at that early stage.*

20 *Additional rights are those that an entity would have to acquire in addition to the legal rights mentioned above in order to conduct their extractive activities. They may include additional or incidental approvals or consent to commence these activities. In many instances, they are contingent on the fulfilment of some socio-economic obligation such as the construction or maintenance of schools.*

21 *The development of a property containing a mineral or oil and gas reserve includes all those activities and processes that grants access to the identified reserve.*

22 *The project team does not attempt to consider these items as separate assets. The project team does not provide any analysis against the earlier criteria, but rather assumes the items are an enhancement of the legal rights as opposed to assets in their own rights. The project team concludes that these items cannot be separated from the legal rights and should therefore form part of the same asset.*

23 *Also, the project team, without any assessment in this regard, does not consider the underlying mineral or oil and gas deposit as an asset. They conclude that once the deposit is extracted it is recognised in accordance with IAS 2 Inventory.*

Prospecting activities

24 *These activities are not defined in the DP, but it can be assumed that they refer to those early search activities conducted to identify areas that may contain mineral or oil and gas deposits. The project team concludes that any information generated from these activities do not give rise to enforceable rights and therefore should not be recognised as assets. They do not preclude the relevant rights from being recognised to the extent that they meet the criteria of IAS 38.*

Plant and equipment (PPE)

25 *The project team suggests that these items be dealt with in accordance with IAS 16 Property, Plant and Equipment.*

The asset continuum

26 *In the view of the project team, the extractive activity asset is therefore "a continuum of activities from the acquisition of the exploration rights through exploration, development and production. Throughout this continuum the underlying asset remains the same ... the right to explore for and extract minerals or oil and gas".*

EFRAG's response

EFRAG's view:

- EFRAG disagrees with the proposals of the DP.
- Other accounting solutions should have been considered, most notably the application of current IFRSs.
- We do not support the use of an asset definition that is not based the current Framework definition, or the omission of the probability criterion in the capitalisation of information related cost.

27 EFRAG disagrees with the proposals of the DP. As noted in question 2 above, EFRAG does not believe that the project team has justified why separate recognition and measurement requirements for extractive activities are necessary. EFRAG therefore questions why the project team did not consider as a starting point the application of current IFRSs within these industries. EFRAG notes that there are other industries that perform activities that can be compared at a conceptual level. These include among others pharmaceutical activities, software development and patent designers. These industries currently apply general current IFRSs to all their activities.

28 EFRAG conceptually supports an assessment of the implications of applying current IFRSs and specifically IAS 38 to extractive activities. Such an assessment could take a blank slate approach such as the project team proposes in the DP, or could be an assessment of current practices such as successful efforts accounting against the provisions of IAS 38. An extractive activity interpretation of the internally generated intangible assets accounting could then be developed.

29 EFRAG notes the legal rights are subjected to the recognition criteria of the Framework. However, other items such as information resulting from exploration and evaluation activities are treated as enhancements to the recognised legal rights without any visible application of asset definition or recognition criteria. EFRAG does not support such an approach to identifying an asset for recognition in any industry. EFRAG is not convinced information obtained from subsequent exploration and evaluation activities provides any enhancement to a legal right. EFRAG notes that many other industries obtain information in conducting activities. However, in those industries such information is not considered to change or enhance a legal right, even if is used by management to make better decisions.

30 EFRAG also finds that the DP fails to express clearly the rationale for treating costs subsequent to the acquisition of the legal rights as enhancements. The DP argues that these costs are inseparable from the legal right and affects the value of such legal rights. EFRAG does not agree with this assessment. We are aware of instances where such information is traded independently of the legal rights under which they were generated. This often occurs where the exploration right does not automatically entitle the holder to the extraction right, and in many joint arrangements where one party contributes a body of information while another party assumes those costs related to the acquisition of the relevant legal rights.

31 EFRAG considers that a full individual assessment of the legal rights, information, additional rights and approvals and other items should be performed with the current Framework as the reference. Items that are separately identifiable and that have different useful lives should be assessed separately.

Question to constituents:

EFRAG would like to know:

- if constituents are aware of any conceptual basis for the asset continuum proposals and its interaction with current IFRSs; and
- what impact the deletion of the scope exemptions to current IFRSs (specifically IAS 16, IAS 17 and IAS 38) would have on current practice and if this would result in decision useful information.

MINERALS OR OIL & GAS ASSET – UNIT OF ACCOUNT

Question 5

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?

Notes for EFRAG's constituents

32 *The unit of account determines the level of aggregation or disaggregation at which assets and liabilities are recognised and presented in the financial statements. The current IASB/FASB conceptual framework project has identified unit of account as an important issue, but this has not yet been addressed. Other IFRSs provide guidance that may assist in determining the appropriate unit of account:*

(a) Management judgement is required – IAS 16.9;

(b) Separable assets should be accounted for separately – IAS 16.58 and IAS 38.12;

(c) Significant components of an item should be identified separately if the subsequent accounting will be different, while assets with similar useful lives and utilisation may be grouped together – IAS 16.43 and 45;

(d) Items that are integral to another asset may be recognised as part of that asset – IAS 17.17 and IAS 40.50;

(e) Individually insignificant items may be aggregated – IAS 16.9 and 46; and

(f) Similar items may be aggregated for the determination of fair values provided the aggregation is made according to significant attributes – IAS 41.15.

33 *The DP notes that there are two important dimensions to consider in selecting a unit of account for minerals or oil and gas assets:*

(a) the geographical boundaries of the asset – possible boundaries include individual mine or field, individual geological area (e.g. a sedimentary basin) or individual country or continent; and

(b) the components of the unit of account that are to be recognised as a single asset – from a functional perspective, possible components include the legal rights and information asset (the property asset) or the property plus any associated plant and equipment assets.

34 *According to the DP, the unit of account comprises the following components:*

(a) legal rights associated with a specific property;

(b) any development works to access the deposit (in accordance with capitalisation criteria stated in IAS 38 and IAS 16) plus any plant and equipment used to produce the deposit if those assets:

(i) do not generate independent cash flows;

(ii) are not physically and commercially separable (for example, they are not readily movable or it would be more economic to abandon or decommission them rather than physically move them to a new location they are specialised so there is no other economic use for them); and

(iii) do not have different useful lives from the legal rights (if the minerals or oil & gas assets are to be measured at historical cost).

35 *In accordance with the DP, the unit of account would be different for exploration and extraction rights. The IASB considers that the unit of account should be consistently re-assessed as the exploration activities took place and with how the exploration and extraction phases are managed. For exploration rights, the unit of account would initially be defined according to the exploration rights held. The DP considers that, in practice, the geographical dimension of a unit of account for extraction rights would usually be expected to be a single mine or field.*

36 *Costs that are necessarily incurred should be capitalised regardless of the number of separate exploration activities that are undertaken within the property. They should be written off only if all those exploration activities are derecognised. The total amount of the acquisition cost of the exploration rights should be included in the cost of any mine or field that is subsequently developed.*

37 *All the costs of the unit of account for the exploration area where a mine or oil and gas field is being developed become the costs of the minerals or oil and gas property, even if the rights to other parts of that area are given up or lost. If more than one mine or oil and gas field is developed then it may be necessary to allocate certain costs (for example the acquisition costs of the exploration rights) on a rational and consistent basis.*

EFRAG's response

- EFRAG thinks that IASB should explain why "unit of account" has to be defined in the DP (and not in a wider context as the Framework).
- EFRAG considers that the unit of account has to be flexible and not limited by legal rights as an upper limit. A principle-based approach that considers all the relevant facts and circumstances to accurately reflect all the risks and rewards associated related to the activities.

38 Although EFRAG understands the importance of accurately defining the unit of account for extractive activities, and especially based on the asset recognition proposals presented in this DP, we believe that the IASB should consider the unit of account in a wider context as part of the Framework project.

39 In our view, the unit of account for extractive activities should be based on all the relevant fact and circumstances that reflect the risks and rewards related to a deposit without a bright-line upper limit. Such an assessment should be based on principle-based guidance that could be developed. The application of such guidance would lead to a conclusion of whether it is appropriate to expand or contract the unit of account.

40 As we see it, the unit of account would initially be a single legal right or portfolio of legal rights with significantly similar risk (geological, economic, political and legal). It may or may not contract, and may even expand, depending on the facts and circumstances as new information becomes available or as the nature of the asset changes due to the activities of the entity.

MINERALS OR OIL & GAS ASSET – MEASUREMENT

Question 6

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.

Notes for EFRAG's constituents

41 *The DP considers three asset measurement bases that could be applied: fair value, current value and historical cost.*

42 *Fair value is calculated using an income approach where estimated future cash flows are discounted. The project team believes that this approach may provide relevant information, but it was rejected because of the subjectivity involved and the degree of estimation involved. This approach would be viewed as too subjective*

because as the calculation would involve mainly level three inputs, which require a significant degree of estimation. In addition, income may be recognised earlier than under a historical cost model and there would be increased volatility in earnings. Furthermore, this approach would result in considerable preparation costs for preparers and users may not consider this type of information decision useful.

43 *The current value approach tries to address some of these concerns. Entities could calculate this value by either applying entity specific data used for management purposes, or standardised inputs. The result would be similar to either the NPV for a project upon which the development decision is based, or the standardised measure of oil and gas calculated by SEC filers. The project team rejected this approach for the same reasons as the fair value approach. In addition users and preparers believe that a standardised measure approach does not faithfully represent the value attributable to proved reserves.*

44 *The historical cost of exploration or oil and gas assets includes the cost of acquiring the exploration and extraction rights and the cost of any activities undertaken thereafter. The DP argues that historical cost is the most appropriate choice of measurement criteria as it does the "least harm" and note that it may not meet the objective of financial reporting of providing decision useful information because historical cost only equals fair value in very limited circumstances.*

45 *When applying historical cost, depreciation will be recorded that is intended to reflect the reduction in value of the assets over time. Currently depreciation (or amortisation) is accounted for as set out in IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets. In practice, depreciation is usually accounted for using the unit of production method but, according to the project team, divergence in practice exists. The DP does not make any proposals regarding the basis for the calculation of depreciation other than to say that the project team believes that it should be calculated on a uniform basis.*

EFRAG's response

EFRAG's view:

- We agree that historical cost is the most appropriate measurement basis.

46 EFRAG agrees that historical cost is the correct measurement basis both at initial recognition and for subsequent measurement because other the alternatives, current value and fair value, would subject preparers to significant cost and effort and would not provide users with relevant information.

47 We understand there is a broader debate about the usefulness of historical cost and fair value measurements in financial reporting. Under current IFRS, most non-financial items are normally measured and reported at historical cost and we see no rationale why the extractive industry should use a different measurement basis until that debate is resolved for all industries.

48 The project team concludes that historical cost is not useful for making decisions. However, the users that we have spoken to have indicated that historical cost measurement is a key indicator of the stewardship and the efficiency of management, provides insight into the cash investment practices of an entity, and is a good indicator of future tax deductions. In addition, it is crucial for determining the return on capital employed by an entity.

TESTING EXPLORATION ASSETS FOR IMPAIRMENT

Question 7

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 recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

Notes for EFRAG's constituents

49 *IAS 36 Impairment of Assets requires a reporting entity to assess at each reporting date whether there has been an indication of impairment. If any such indication exists, the entity shall estimate the asset's recoverable amount. The recoverable amount is defined as the higher of the asset's or cash-generating unit's (CGU) fair values less costs to sell and its value in use.*

50 *The specific indications identified in IAS 36 provide a list, although not exhaustive, that acts as a filter to identify assets that needs to be tested for impairment. Applying these indicators of impairment may not be appropriate for exploration phase assets as they will usually lead to recognition of an impairment charge. In addition, there will generally be insufficient information available to calculate a value in use or fair value less cost to sell that supports the carrying amount of the asset.*

51 *Technical feasibility and commercial viability of extracting the resource can often only be assessed after the exploration and evaluation effort has been completed. The DP proposes that impairment testing should only take place whenever evidence is available to suggest that full recovery of the asset is unlikely with separate indicators of impairment different from those in IAS 36.*

52 *The DP also proposes disclosure as to why management considers the asset not to be impaired and proposes to remove the option that exists under IFRS 6 to allocate exploration and evaluation expenditure to a CGU or a group of CGUs.*

EFRAG's response

EFRAG's view:

- The DP has not convinced us that the impairment proposals are superior to the application of IAS 36 Impairment of Assets. In fact, the need for separate guidance is in our mind further indication that the recognition proposals are not appropriate.
- Furthermore, we are very concerned about the precedent that the proposals may set – an asset exists until proven otherwise;

53 EFRAG believes that the asset continuum creates difficulty with impairment. This includes ensuring indications of impairment are robust enough to ensure that an entity does not recognise assets in its statement of financial position that may not result in future economic benefits. Instead EFRAG believes that if information was subjected to the asset recognition test in the Framework, separate indications of impairment may not be required.

54 As stated in the response to question four, we strongly support applying current IFRS. In our opinion this would be an improvement because, consistent with other industries such as pharmaceuticals and software development, impairment testing would occur only at the point of technical feasibility and commercial viability. Prior to this stage exploration costs would be expensed.

55 If, however, the IASB were to pursue an asset continuum approach then we would agree that the impairment proposals are appropriate because reliable evidence to support an impairment calculation is generally only available towards the end of the exploration and evaluation phase. Applying IAS 36 impairment indications would almost always lead to an immediate impairment charge when evidence is not yet available to support the carrying amount of the capitalised asset. Having said this if evidence exists to suggest an exploration asset is impaired then the requirements of IAS 36 should apply.

Question to constituents

EFRAG would like to know constituents' view on the application of IAS 36 to extractive activities and any unintended consequences that may arise from such an approach.

DISCLOSURE OBJECTIVE

Question 8

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?

Notes for EFRAG's constituents

56 *The project team's user survey found that the primary sources of information that users rely on when analysing extractive activity participants are financial statement disclosures and other disclosures, such as management commentary or regulatory filings, rather than the statement of financial position, statement of comprehensive income or the statement of cash flows. Users also indicated that they placed little value on the recognition and measurement of minerals or oil and gas reserves in the primary financial statements.*

57 *The project team therefore propose 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 & gas assets;

(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.

EFRAG's response

EFRAG's view:

- Disclosures for extractive activities are fundamentally important to understand the financial performance and position of an industry participant.
- EFRAG supports the disclosure objectives to the extent that they do not propagate current or fair value disclosures.

58 Although a clear rationale is not presented in the DP, EFRAG understands that the complexity of the activities within extractive activities creates unique challenges that require disclosures that are somewhat different from other industries. Although the economic characteristics of these activities are not unique, what sets them apart from other industries is the fact that mineral or oil and gas deposits are finite, quantifiable resources. Disclosure of resource quantities is meaningful as it provides a suitable starting point for determining the future cash flows that an entity can generate. This differentiates extractive activities from the pharmaceutical and software development industries that do not have similar quantifiable resources. From this perspective, EFRAG supports the development of guidance on the disclosure requirements for extractive activities.

59 EFRAG supports the disclosure objectives to the extent that value disclosures do not translate to current value or fair value disclosures. As stated above in our response to question 6 we do not support such measurement in this industry, and most users we have talked to agree with this assessment. We also note that the project team acknowledges that users have indicated that they would not rely on such values. EFRAG therefore expects such disclosures to show a negative cost/benefit relationship. For our detailed assessment, please refer to our response to question 9.

60 However, EFRAG supports the disclosure objectives to the extent that they result in disclosures that enable users of financial statements to estimate future cash flows and to evaluate the value attributable to an entity's minerals or oil and gas assets.

DISCLOSURES THAT MEET THE DISCLOSURE OBJECTIVE

Question 9

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?

Notes for EFRAG's constituents

61 *The project team, in summary, propose the following disclosures:*

No.	Disclosure type	Information to disclose	Level of detail
1	Reserve quantities	• Proved reserves and proved and probable reserves • Estimation method • Main assumptions • Sensitivity analysis to main assumptions • Reconciliation of changes in reserve quantities	• By commodity, and further broken down by country or project (where material)
2A	Current value measurement (if asset is measured at historical cost)	• Option A: Range of fair value estimates • Option B: Standardised measure of proved and probable reserves • Preparation basis • Main assumptions • Reconciliation of changes in current value	• Generally disclosure by major geographical region
2B	Fair value	• Fair value estimate	• Generally disclosure by

	measurement (if asset is measured at fair value)	• Main assumptions • Sensitivity analysis to main assumptions • Reconciliation of changes in reserve values • Other disclosures similar to the proposals in ED/2009/5 Fair Value Measurements	major geographical region
3	Production revenues	• Production revenues	• By commodity
4	Costs	• Exploration costs • Development costs • Production costs	• Disaggregated as per reserve quantities • Time series of disclosure over five years

Reserve Quantities

Categories of reserves to be disclosed

62 *Most users surveyed by the project team indicated that proved and probable reserves should be provided. Such volumes are normally the entities best estimate of the economically recoverable minerals or oil and gas at its disposal.*

Reserves attributable to the entity

63 *The DP defines such reserves as those that the entity has an enforceable right to extract. From this, it is inferred that the entity should disclose the reserves that it controls. Accordingly, such reserves should include quantities attributable to the parent entity, to its subsidiaries, and to its interests in joint arrangements that are not equity accounted. Reserves held by equity accounted or cost accounted investees should not be included as part of those quantities. The DP proposes that these quantities are disclosed separately from controlled reserves.*

Disaggregated disclosure of reserve quantities

64 *Not all reserve quantities are equally reliable. This is due to the geological-, geographical-, political-, legal- and economic risks attached to different deposits. The project team therefore argues that a disaggregation, that would allow users to identify different risks related to volume disclosures, is important. They argue that the probabilistic methods at an entity level that takes account of the portfolio effect of an entity's assets will not achieve the required level of disaggregation required to understand these risks.*

65 *The DP therefore proposes that disclosures are disaggregated to take account of both the commodities and geographical boundaries of assets. This approach precludes the use of "equivalent quantities" – a practice where lesser quality commodities are converted into higher quality equivalents such as barrel-of-oil or gold-ounce equivalents. This practice does not clearly portray the relative risks related to quantities disclosed.*

Basis of estimation

66 *In accordance with IAS 1 Presentation of Financial Statements the DP proposes that the method of estimation is disclosed. This disclosure should include disclosures about the person who performed the estimates.*

<u>Disclosure of the main assumptions</u>

67 *Similar to other standards that rely heavily on judgement, the DP proposes that entities disclose those assumptions that underpin the quantities disclosed.*

68 *The main assumption would be the commodity price as it is considered the main economic variable and determines the reserve quantity that is economically recoverable. In practice, economic decisions are based on management's estimate of future conditions. Quantities disclosed on this basis could therefore be based on such prices with relevant disclosures. Alternatively, quantities could be based on standardised prices (such as yearly averages) which may lead to comparability at the expense of being different from those assumptions used by management to make decisions.*

69 *Other possible assumptions that could be disclosed include discount rates, production profiles and cost assumptions. The project team does not clearly propose which of these should be disclosed, but they do note that many of these assumptions would be project specific and would therefore not be at the same level of geographic aggregation as proposed to quantity disclosures.*

<u>Sensitivity analysis</u>

70 *A sensitivity analysis can be useful in helping to explain the uncertainties associated with the reserves quantity estimate made as at the reporting date. The DP proposes that a sensitivity analysis should be provided to show the sensitivity of the reserves quantity estimate to changes in the main economic assumptions.*

71 *The practical difficulty lies in the nature of reserve estimation. Invariably a change in one input will affect other inputs to the calculation. For instance, if the commodity price increases then different technology may be used to extract the reserves which changes not only the cost structure but potentially the production rates. The DP acknowledges this, and therefore suggests that the sensitivity analysis is based on the main economic assumption with a reasonable estimation of how the other assumptions may change.*

72 *In most instances, the main economic assumption will be the commodity price. The DP proposes two alternatives how such an analysis could be done:*

(a) Assuming that the reserves determination is not based on a standardised price, such a price (a yearly average for instance) could be used. This may provide users with a level of comparability.

(b) An incremental change or percentage could provide insight into the affect of price changes on the reserve estimates.

The project team does not conclude on the most appropriate approach.

<u>Reconciliation of the changes in quantities from year to year</u>

73 *A disclosure that explains the changes in the entity's reserves from one reporting period to the next is proposed in narrative, quantitative or a combination of both. The DP argues that the level of aggregation or disaggregation would determine which method is more appropriate. It is argued that disclosure by property could provide relevant information in primarily narrative form as this would be easy to understand. However, disclosure on more aggregated method will often require a numerical reconciliation. Such a reconciliation should include:*

(a) discoveries and extensions;

(b) revisions of previous estimates, which may include revisions as a result of:

(i) geological factors (e.g. a better understanding of the geology as a result of additional drilling activities);

(ii) commodity price factors; or

(iii) other economic factors (e.g. a change in taxation or discount rates);

(c) production of minerals or oil & gas;

(d) acquisition of reserves through the purchase of minerals or oil & gas properties; and

(e) disposal of reserves through the sale or disposal of minerals or oil & gas properties.

Current Value Measurement

74 *The DP proposes that if the measurement basis for the asset(s) is historical cost then two alternatives for disclosing the current value should be considered:*

(a) Option A: disclose a valuation of entities mineral or oil and gas assets that is based on a range of estimates of fair value rather than a single point estimate;

(b) Option B: disclosure based on a discounted cash flow valuation similar to standardised measures of proved oil reserves.

Alternative A

75 *The project team believes disclosing a range of fair value estimates has many benefits over presenting a single point estimate. Because many of the inputs used to calculate a single fair value estimate are based on level three inputs which can create significant variability. They point out that this type of disclosure already exists in IAS 40 and 41[1]. The disclosures would also include the main assumptions used to prepare the estimates, the sensitivity of the ranges to changes in the main assumptions and a reconciliation of changes in the valuation range between reporting periods.*

76 *The project team rejected alternative A because of the concerns raised by users and preparers. That is preparers have concern about cost and effort with preparing fair value estimates and users concerns that they would not use management estimates of fair value in their own analysis.*

Alternative B

77 *This disclosure should be based on a current value measure with standardised measures as inputs based on proved and probable reserves.*

[1] IAS 40 paragraph 79(e)(iii) and IAS 41 paragraph 54(c) both state that where the historical cost model is applied the entity shall disclose "if possible, the range of estimates within which fair value is highly likely to lie"

78 *Basing the valuation of proved and probable reserves represents the best estimate of the entity's potentially economically recoverable reserves. The project team believes that using this approach reduces some of the uncertainty and variability associated with the estimate. They also point out that the quantities of reserve disclosures provides a link to future cash flows.*

<u>Preparation basis</u>

79 *The DP states that users surveyed indicated that the assumptions used to calculate current value should be standardised. In order to determine the standardised parameters it was suggested that the following could be used:*

(a) for commodity prices: use a standardised price assumption such as historical average price or a current market price;

(b) for development and operating costs: use current costs;

(c) for discount rates: use a standardised discount rate or the entity's weighted average cost of capital (which would be disclosed).

80 *The project team also recommends the following disclosures similar to USGAAP:*

(a) an explanation of the main assumptions, including standardised assumptions;

(b) a breakdown of the main components of the measurement. At a minimum this should include:

(i) future production revenues;

(ii) future operating and development expenditures;

(iii) future royalty and taxation expenditures; and

(iv) The effect of discounting.

81 *According to the DP, disclosures that allow for a comparison of discounted and undiscounted future cash inflows allows for an understanding as to when the entity is expecting to produce the reserve quantities.*

<u>Reconciliation of current value measurement</u>

82 *The project team notes that users have indicated that they are interested in how standardised measures changes over time and provides users with information about sensitivity of values changes. They also highlight that "although the assumptions behind the standardised measure may not be relevant, the effect of changes in those assumptions is considered useful information".*

83 *Accordingly the project team recommends that a reconciliation between changes in current value be disclosed between the current year and preceding year based on the following changes:*

(a) commodity prices;

(b) operating costs;

(c) development costs;

(d) taxation and royalty arrangements; and

(e) the discount rate and the accretion of the discount.

Disaggregation basis for a current value measurement and reconciliation

84 *The project team believes that the current value measurement should be provided for each geographical location however highlights that this may not be feasible because cause preparation and presentation difficulties due to the volume of information that would need to disclosed. Due to this, they recommend a higher level of aggregation would need to be considered that proposes that the current value measurement and the reconciliation disclosure should be presented by major geographical location.*

Production revenue

85 *The project team recommends that production revenues should generally only be disclosed by commodity. The disclosure of production revenue information in the financial report would complement the disclosure of production quantities and production cash flows.*

Exploration and development costs

86 *The exploration, development and production cash outflows that were made in the current and prior periods should be disclosed over a period that is sufficient to enable the identification of trends (possibly five years). This information should be provided at the same level of disaggregation as the reserves quantity disclosure.*

EFRAG's response

EFRAG view

- The proposed disclosures are too onerous, voluminous and often address the same disclosure objective in different ways.
- Both proved and probable reserves should be disclosed as part of the annual financial report. We also think disclosures developed and undeveloped reserves should be presented separately.
- Extractive activities are not sufficiently different from other activities to warrant current value or fair value disclosures. We strongly oppose such proposals.
- Cost information, based on a time-series, and disaggregated by phase and stage of development (i.e. developed, undeveloped reserves etc) is important.

87 As mentioned in our response to questions 1, 2 and 8, EFRAG supports the objectives in relation to disclosures. In fact, in our view the IASB should primarily focus on disclosure guidance and the resolution of contentious accounting issues such as production sharing agreements. Having said that, we note that some of the proposed disclosures aim to achieve the same disclosure objective. For example, the disclosures about reserve quantities and current values are overlapping. The IASB should eliminate such overlap and then focus on those remaining disclosures that truly provide a better understanding of the entity's financial position, performance and change in financial position.

88 As disclosures of resource quantities are generally not required to be audited, the IASB should carefully consider the placement of such information within the annual report.

Reserve quantities

89 EFRAG understands the importance of these disclosures in the wider sense of the financial report. We also understand their importance in estimating future cash flows relating to an entity's activities. As such, we support the disclosure of reserve quantities in the wider financial report. Specifically, we support the following:

(a) Proved and probable reserve quantities. EFRAG agrees that entities should disclose information about those quantities that will probably result in future cash flows as this is useful in making economic decisions. We do not agree with those who argue that including probable reserves would mislead users who do not understand the uncertainties related to the quantities. Users of financial statements are expected to be diligent and knowledgeable, and as such should understand the risks related to the quantities disclosed assuming that proved and proved-and-probable quantities are clearly presented separately. We also think it is important users are aware of reserve quantities that might be produced in the foreseeable future and therefore believe disclosures should separately identify reserves that are developed from those that are undeveloped;

(b) As noted in question 3, EFRAG is supportive of developing principle-based reserve definitions. We therefore support clear disclosures relating to the estimation method and those persons who perform the estimates. We would, however, limit disclosures about individuals to qualifications, experience and relationship with the entity;

(c) Like other IFRSs that rely heavily on management judgement, disclosures of main assumptions are important. These disclosures provide valuable information in determining the value of the reserve quantities disclosed; and

(d) Due to the unique uncertainties of reserve quantities and their propensity to change, EFRAG agrees that a numeric reconciliation as proposed is important to understand movements in the quantities. Narrative disclosures to explain the changes are equally important in this regard.

90 However, within the context of IFRS disclosures in the notes to the financial statements, we have several significant concerns:

(a) A sensitivity analysis is only useful if the sensitivity assists users to understand the effect of a change in one variable on the quantities disclosed. This is not the case for reserve quantities. Changing one variable potentially changes other variables. Therefore, including static variables would distort the information and render it less decision useful as it is disconnected from economic reality. EFRAG strongly disagrees with this disclosure requirement. The users we have spoken to support EFRAG's view.

(b) EFRAG is strongly against standardised quantity disclosures. Firstly, such disclosures would be onerous to prepare, as they would be significantly different from those used for internal management purposes. Secondly, the relevance of these disclosures diminishes because they are disconnected from the information used by management to make decisions. The

comparability gained from the disclosures would be heavily outweighed by the loss of relevant information in our view.

(c) We question the focus on commodity price as the primary variable in the calculation. We note that in many jurisdictions the discount rate or exchange rate could have an equally significant impact on the calculation, while at certain commodity prices the cost structure is perhaps the primary variable. Throughout the production schedule is a key variable. Final guidance on disclosures should consider this.

Current Value Measurement

91 EFRAG understands from the DP, and our interaction users, that current value disclosures in financial statements would not be relied upon as such, but would rather serve as a reference point for the user's own calculations. EFRAG believes that the reserve quantity disclosures will provide such a reference point and therefore we do not support this type of disclosure.

92 In addition, we believe that the IASB should require disclosure of reserve quantities or current value (fair value) but not both. In our opinion, there may be duplication of information thereby subjecting preparers to significant costs that could be avoided. For example, reserve quantities disclosures in option one (which requires a range of fair value estimates) and option two (which requires disclosures based on standardised measure of proved and probable reserves) both require disclosure of the main assumptions.

93 While we believe option A is more consistent with the DP's disclosure objective than option B, we think that neither option is appropriate for the following reasons:

(a) both options subject preparers to significant preparation costs and effort while users have already indicated that they would not rely on the values disclosed;

(b) option one would provide very subjective information particularly at the exploration phase, whilst option two is rules based rather than principles based and also standardised pricing is not present in any other current IFRS;

(c) both options do not provide users with relevant information and accordingly the proposals do not meet the objective of financial reporting; and

(d) major geographical location disclosures would be more useful if the inputs were based on principles and not rules.

Fair Value Measurement

94 EFRAG has not considered the fair value disclosure proposals because we support historical cost as the most appropriate measurement basis.

Production revenue

95 We do not agree that the geographical production revenue is only relevant if the commodity price is subject to local market conditions. If an entity thinks there are geographical risks for its activities, a geographical disclosure of production revenue should be included to be consistent with that.

96 We consider it would be useful to disclose the revenue related with production sharing agreements and to indicate the production revenue of equity investees.

Exploration and development costs

97 EFRAG supports the direction of the proposed cost disclosures. We think that the proposals could be improved by providing transparency into the amount of total project cost disaggregated to show the current potential of those cost to ultimately translate to future economic benefits. Such disclosures would allow users to determine the return on capital employed. Users have indicated to us that this is very important in a historical cost environment.

98 In addition we consider it would be useful to include the following additional disclosures in order to provide useful information related with these costs and their related risks:

(a) Amounts of costs that are still capitalised after the completion of the drilling with an ageing and description of the projects;

(b) In general, separation of costs related to production sharing agreements because they are costs that will be recovered;

(c) Results of operations (revenue, production, exploration, depreciation and amortisation, income tax and result). If reserves attributable to equity-method investees were disclosed, it would be useful to disclose the same items for equity method investees.

Question to constituents:

EFRAG would like to know the views of constituents specifically in relation to disclosures. In addition to general comments, it would be useful to understand the views of constituents:

- about the relative usefulness of the proposed disclosures;
- whether the inclusion of information about projects that are about to be commissioned, or that will begin production in the near future, with an indication of the timing thereof will provide meaningful information; and
- any alternatives not presented here.

PUBLISH WHAT YOU PAY DISCLOSURE PROPOSALS

Question 10

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.

Notes for EFRAG's constituents

99 *Publish What You Pay (PWYP), is a campaign promoted by a coalition of non-governmental organisations, which aims to help citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the minerals and oil & gas industries. To achieve this, PWYP proposes that entities undertaking extractive activities should be required to disclose, in their financial reports, the payments they make to each host government. These payments could be in cash or in kind and should be disclosed on a country-by-country basis.*

100 *PWYP also proposes that disclosures should be provided on a country-by-country basis for other types of information including minerals or oil & gas reserve quantities, production quantities, production revenues, and costs incurred in development and production. The objective of these disclosures is to provide information on the scale of the entity's operations within individual countries. Citizens of resource-rich developing countries can compare this information with the amounts an entity has paid to governments of those countries.*

101 *These disclosure include the following:*

(a) *Benefit streams to government - The significant components of the total benefit streams to government and its agencies should be disclosed on a country-by-country basis. At a minimum, this would include separate disclosure of royalties and taxes paid in cash and in kind (measured in cash equivalents), dividends, bonuses, and licence and concession fees.*

(b) *Reserves - Reserves volumes and valuation measures (if required by the future IFRS) should be disclosed on a country-by-country basis.*

(c) *Production volumes - Production volumes for the current reporting period should be disclosed on a country-by-country basis. Optional disclosure of production volumes by key products and key properties is encouraged.*

(d) *Production revenues - Revenues from production should be disclosed on a country-by-country basis, disaggregated by sales to external customers and transfers* to downstream operations.

(e) Costs – Production and development costs should be disclosed on a country-by-country basis.

(f) Key subsidiaries and properties - The names and locations of each key subsidiary and property in each country should be disclosed.

102 *The project team performed an analysis of the PWYP proposals and found that the disclosures may be useful for certain capital providers. They do however note that in certain instances the cost may outweigh the benefit of providing the disclosures.*

EFRAG's response

EFRAG view

- The objective of financial statements is to provide decision useful information to investors and other capital market participants. Where these objectives overlap with those of other organisations they should be included in the financial reporting framework.

103 EFRAG believes that the objective of financial statements is to provide decision useful information to investors and other capital market participants. In this regard, EFRAG is of the view that there can be a distinction between the purpose of financial statements and the objectives of organisations with a socio-political agenda. We do, however, think it is possible that accounting standards can be developed that satisfy the needs of both such organisations and capital market participants since they do have similar interests. However, where there are divergent needs, the needs of investors and other capital market participants must take precedence.

104 EFRAG considers that many of the disclosures proposed by the project team already address many of the PWYP objectives. Many of the proposed disclosures are currently provided elsewhere in the annual report on a voluntary basis. The users that we have spoken to have expressed little interest the additional disclosures proposed. Our initial assessment of the additional disclosures is therefore that cost of their preparation will not outweigh the benefit of their inclusion in the financial statements.

Question to constituents:

EFRAG would like to know the views of constituents in this regard.