

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Zurich, Switzerland

Meeting Date: September 12–15, 2023

Agenda Item 16

For:

☐ Approval

☒ Discussion

☐ Information

NATURAL RESOURCES – IFRS 6 ALIGNMENT

Project summary	<p>This is a sub-project of the project on Natural Resources.</p> <p>The objective of this project is to develop an IPSAS aligned with IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>, and to also incorporate guidance aligned with IFRIC 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i>.</p>	
Project staff lead	Christoph Braxton, Principal	
Board sponsor	Renée Pichard, IPSASB Member	
Meeting objectives	Topic	Agenda Item
Project management	Phase 1 Exposure Draft Dashboard (Refer Note below)	See 14.1.1
	Instructions up to Previous Meeting (Refer Note below)	See 14.1.2
	Decisions up to Previous Meeting (Refer Note below)	See 14.1.3
	Natural Resources: Project Roadmap (Refer Note below)	See 14.1.4
Decisions required at this meeting	Alignment with IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>, and IFRIC 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i>	16.2.1
Other supporting items	[Draft] ED XX, <i>Exploration for and Evaluation of Mineral Resources</i>	16.3.1

Note: This is a sub-project of the Natural Resources project (Agenda Item 14). Please refer to the corresponding Agenda Items referenced above for the relevant project management information.

Alignment with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

Question

1. Does the IPSASB agree with the Staff recommendations for the alignment with IFRS 6 and IFRIC 20?

Recommendation

2. Staff recommends that:
 - (a) An IPSAS aligned with IFRS 6 be developed without significant adaptation, except for terminology and other IPSASB-specific formatting and consistency amendments;
 - (b) IPSAS guidance aligned with IFRIC 20 be developed without significant adaptation, except for terminology and other IPSASB-specific formatting and consistency amendments; and
 - (c) The IPSAS guidance aligned with IFRIC 20 be included as an Appendix to the future IPSAS aligned with IFRS 6.

Background

3. The IPSASB decided at its meeting in March 2021 to include a Preliminary View (PV) in its [Consultation Paper](#) (CP) proposing to provide guidance on costs of activities related to Natural Resources, based on IFRS 6, *Exploration for and Evaluation of Mineral Resources* and IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, subject to any specific IASB plans to revise these Standards. Respondents supported the IPSASB's PV, and the IPSASB deliberated the feedback received and decided in March 2023 to develop a separate ED aligned with IFRS 6, to introduce the guidance on accounting for expenditures incurred during the exploration and evaluation phase for extractive industries (e.g., mining, and oil and gas)
4. As a first step in developing an ED aligned with IFRS 6, the IPSASB received an education session, from experts from KPMG Canada, on the application of IFRS 6 in the private sector. Key messages from the session included:
 - IFRS 6 allows an option to capitalize expenditures, under certain conditions, in the exploration and evaluation phase for extractive activities.
 - IFRS 6 does not apply to the recognition and measurement of the underlying unextracted mineral resources, because the technical feasibility and commercial viability, both of which are uncertain elements, of extracting these mineral resources need to first be determined through exploration and evaluation. IFRS 6 only applies to this phase and transactions.
 - Entities in the extractive industry have an option to apply IFRS 6 and, when certain conditions are met, capitalize the expenditures incurred as an asset, or can expense exploration and evaluation expenditures as incurred. A variety of policies are implemented by the extractive industry in practice between these two extremes.

The IPSASB and staff benefitted from the practical understanding of how IFRS 6 is applied, and this further reconfirmed the IPSASB's approach to develop an IPSAS closely aligned with IFRS 6, given the specific need for such guidance in the extractive industry, and the fact that there does not appear to be any significant public sector differences related to the transactions which IFRS 6 accounting applies to.

Analysis

IFRS 6

5. No public sector specific reasons to depart from IFRS 6 have been identified. The following bullets set out the key considerations to determine whether any public sector departures were necessary:
 - IFRS 6 applies to exploration and evaluation activities for entities in the extractive industry, and therefore, has a very narrow focus and applicability. Such entities are expected to have the same activities and undertake similar transactions in the public sector.
 - Entities in the extractive industry only apply IFRS 6 when their activities are for commercial purposes. Similar entities in the public sector are likely to be established for the same purpose, i.e., to extract mineral resources on a commercial basis.
 - IFRS 6 allows an option to defer expenditure incurred, under certain circumstances, by recognizing an asset. However, other entities may expense the costs as their accounting policy. Entities in the public sector are expected to be applying similar accounting policies.
6. Therefore, no issues were identified requiring departures from IFRS 6 in the IPSAS being developed. See [Appendix A](#) for the IPSAS specific terminology and formatting changes proposed.

IFRIC 20

7. Staff considered whether there are any public sector issues that require a departure from the guidance in IFRIC 20. Below are the key points in the staff analysis as to why IFRIC 20 is applicable in the public sector, and why there are no public sector departures needed.
 - IFRIC 20 provides guidance on how to account for stripping activities and the related costs¹ in surface mining operations. There are two potential benefits accruing to the entity from such activities: Providing access to ore bodies so these can be extracted and recognized as inventory; and improved access to further quantities for future mining. Current IPSAS does not include guidance to help with the accounting for stripping costs. Such activities are possible to occur in the public sector.
 - IFRIC 20 applies to surface mining operations, and therefore has a very narrow focus and applicability. Such entities in the public sector would have the same objectives and activities.
8. Therefore, Staff recommends that guidance aligned with IFRIC 20 be developed without significant adaptation, except for terminology and other IPSASB-specific formatting and consistency amendments (refer [Appendix B](#)).
9. Furthermore, IFRIC 20, together with IFRS 6, apply only to the extractive industry, and combining the accounting guidance specific to this industry into one pronouncement would add to the usefulness in applying the guidance.
10. Therefore, Staff believe that it would be appropriate to incorporate the guidance aligned with IFRIC 20 into the proposed IPSAS aligned with IFRS 6.

¹ In the mining industry stripping costs are those costs incurred when removing overburden and waste materials to access an ore body in a surface mining operation.

Decision Required

11. Does the IPSASB agree with the Staff [recommendations](#)?

Appendix A - Other Public Sector Amendments to IFRS 6, *Exploration for and Evaluation of Mineral Resources*

1. This paper indicates which terminology and formatting changes are recommended to IFRS 6 in the development of [draft] IPSAS [X] (ED XX), *Exploration for and Evaluation of Mineral Resources*.

Public Sector Terminology

2. The following terminology changes are proposed to maintain consistency with existing IPSAS:

IFRS 6	[draft] ED XX
IFRS	IPSAS or Standard

These proposals are incorporated into [draft] ED XX.

IPSASB Formatting

3. The following formatting changes are proposed to maintain consistency with existing IPSAS. These include, but are not limited to:

IFRS 6	[draft] ED XX
British spelling	American spelling
Definitions as an appendix	Definitions in the core text
List punctuation inconsistent	List punctuation consistent
Lower case for sub-bullets	Upper case for sub-bullets
References to other IFRS	References to other IPSAS

These proposals are incorporated into [draft] ED XX.

Other IPSAS specific consistency changes

4. The following text changes are proposed to maintain consistency with existing IPSAS. These include, but are not limited to:

IFRS 6	[draft] ED XX
"Impairment of Assets"	"Impairment of Cash Generating Assets"
"An entity shall apply the IFRS to exploration and evaluation expenditures that it incurs."	"An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting to exploration and evaluation expenditures that it incurs."
"The Conceptual Framework for Financial Reporting"	"The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities"

Appendix B - Other Public Sector Amendments to IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

1. This paper is for information only and indicates which words and formatting changes were made to IFRIC 20 in the development of the Appendix to [draft] IPSAS [X] (ED XX), *Exploration for and Evaluation of Mineral Resources*.

IPSASB Formatting

2. The following formatting changes are proposed to maintain consistency with existing IPSAS. These include, but are not limited to:

IFRIC 20	Appendix to [draft] ED XX
British spelling	American spelling
List punctuation inconsistent	List punctuation consistent
Lower case for sub-bullets	Upper case for sub-bullets
References to other IFRS	References to other IPSAS

These proposals are incorporated into the Appendix to [draft] ED XX.

Supporting Document – [Draft] IPSAS [XX], *Exploration for and Evaluation of Mineral Resources*

The exposure draft referenced in Agenda Item 16.2.1 is posted separately for easier readability.