

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: December 5–8, 2023

Agenda Item 7

For:

☒ Approval

☐ Discussion

☐ Information

NATURAL RESOURCES – IFRS 6 ALIGNMENT

Project summary	<p>This is part of the broader project on Natural Resources (Agenda Item 3). The objective of this project is to develop:</p> <ul style="list-style-type: none"> An IPSAS aligned with IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>; and Guidance aligned with IFRIC 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i>. 	
Project staff lead	<ul style="list-style-type: none"> Christoph Braxton, Principal 	
Meeting objectives	Topic	Agenda Item
Project management	Natural Resources – IFRS 6 Alignment: Exposure Draft Dashboard	7.1.1
	Decisions up to Previous Meeting	7.1.2
	Instructions up to Previous Meeting	7.1.3
	Natural Resources – IFRS 6 Alignment: Project Roadmap	7.1.4
Decisions required at this meeting	IFRS 6 Alignment - Development of [draft] ED 86, <i>Exploration for and Evaluation of Mineral Resources</i>	7.2.1
	Approval of ED 86, <i>Exploration for and Evaluation of Mineral Resources</i>	7.2.2
	IFRIC 20 Alignment - Placement of Guidance	7.2.3
	IFRIC 20 Alignment - Development of [draft] ED 87, <i>Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)</i>	7.2.4
	Approval of ED 87, <i>Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)</i>	7.2.5
	Aligning the publication of ED 86, <i>Exploration for and Evaluation of Mineral Resources</i>, and ED 87, <i>Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)</i>, with ED 88, <i>Natural Resources</i>	7.2.6
Other supporting items	[Draft] ED 86, <i>Exploration for and Evaluation of Mineral Resources (Mark-up from September 2023 IPSASB meeting)</i>	7.3.1

	[Draft] ED 87, <i>Stripping Costs in the Production Phase of a Surface Mine</i> (Amendments to IPSAS 12)	7.3.2
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**NATURAL RESOURCES – IFRS 6 ALIGNMENT:
EXPOSURE DRAFTS DASHBOARD**

Topic	Past Meetings	December 2023	March 2023	June 2024
Overall Project Management				
Project Planning				
Review and Approval of Alignment EDs				
Alignment with IFRS 6 and IFRIC 20				
Development of EDs				

Legend	
	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2023	1. Departures from IFRS 6 should be limited to terminology and other IPSASB-specific formatting and consistency amendments.	1. See paragraph BC7 in Agenda Item 7.3.1 .
September 2023	2. Guidance aligned with IFRIC 20 should be developed, with departure limited to terminology and other IPSASB-specific formatting and consistency amendments.	2. See paragraph BC9 in Agenda Item 7.3.2 .
March 2023	1. A separate ED for the costs of exploration, evaluation, and extraction activities, aligned 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> , should be developed.	1. See Agenda Item 7.2.1 and Agenda Item 7.2.4 .
March 2022	1. All decisions made up to March 2022 were reflected in the Consultation Paper, <i>Natural Resources</i> .	1. All decisions made up to March 2022 were reflected in the Consultation Paper, <i>Natural Resources</i> .

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2023	1. Develop Basis for Conclusions highlighting: (a) The applicability of public sector guidance under development aligned with IFRS 6 to entities in the public sector; and (b) The inconsistencies between the public sector guidance aligned with IFRS 6 under development and the Conceptual Framework.	1. See Basis of Conclusion paragraphs in Agenda Item 7.3.1 : (a) BC2-BC7 (b) BC8-BC9
September 2023	2. Determine the appropriate location for guidance aligned with IFRIC 20.	2. See Agenda Item 7.2.3 .

**NATURAL RESOURCES – IFRS 6 ALIGNMENT:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	1. Project Brief approval 2. Commencement of Consultation Paper (CP) development
March 2022	1. Approval of CP (Published May 9, 2022)
December 2022	1. CP comment period (Ended October 17, 2022)
March 2023	1. Review of responses to the CP
September 2023	1. Discussion of issues 2. Development of ED on alignment with IFRS 6 and IFRIC 20 (See Agenda Item 16)
December 2023	1. Discussion of issues 2. Development and approval of ED on alignment with IFRS 6 and IFRIC 20

IFRS 6 Alignment - Development of [draft] ED 86, *Exploration for and Evaluation of Mineral Resources*

Question

1. Does the IPSASB agree with the revisions made to [draft] Exposure Draft (ED) 86, *Exploration for and Evaluation of Mineral Resources*?

Recommendation

2. Staff recommends the IPSASB approve the following revisions to [draft] ED 86 to add:
 - (a) Basis for Conclusions; and
 - (b) Specific Matter for Comment (SMC).

Background

3. At the September 2023 IPSASB meeting, staff proposed that the IPSAS aligned with IFRS 6 be developed without significant adaptation, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB members agreed and instructed staff to draft Basis for Conclusions dealing with:
 - (a) The applicability of public sector guidance under development aligned with IFRS 6 to entities in the public sector; and
 - (b) The inconsistencies between the public sector guidance aligned with IFRS 6 under development and the Conceptual Framework.
4. This paper addresses the IPSASB's September 2023 decisions and instructions and the remaining issues to be considered before approval of [draft] ED 86, *Exploration for and Evaluation of Mineral Resources*.

Analysis

Basis for Conclusions – Applicability of IFRS 6 in the Public Sector

5. In the Consultation Paper, *Natural Resources* (CP) the IPSASB indicated that a number of resource-rich jurisdictions had entered into mine production sharing or co-production agreements, which may fall within the scope of IPSAS 37, *Joint Arrangements*, and therefore it is possible for the resulting joint operation or joint venture to incur exploration and evaluation costs, for which there currently is no guidance in IPSAS. Without an aligned IFRS 6, a public sector entity would be challenged to account for the costs incurred in the joint arrangement in the same way as the private sector counterparty.
6. Furthermore, respondents to the CP generally supported the development of guidance aligned with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Staff also determined that the guidance continues to be appropriate because the information would be useful to preparers and users.
7. In addition, the IASB decided in September 2023 to remove the temporary status of IFRS 6 and halted their project on extractive activities, which makes IFRS 6 guidance appropriate for the foreseeable future.

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8. Based the IPSASB's instruction per paragraph 3(a) above and the confirmation above, Staff proposes the Basis for Conclusions paragraphs included in the [Agenda Item 7.3.1](#). See paragraphs [draft] ED 86.BC4-BC7.

Basis for Conclusions – Inconsistency of IFRS 6 and the Conceptual Framework

9. Staff considered the requirements in IFRS 6 and whether it departs from the IPSASB's framework. Despite IFRS 6 being inconsistent with certain aspects of the IASB's framework, it still provided useful information to preparers and users of the financial statements according to their constituents and as noted in paragraph 7 above, guidance per IFRS 6 will remain in place for the foreseeable future.
10. Therefore, even though the guidance aligned with IFRS 6 may have some inconsistencies with the IPSASB's framework, these inconsistencies are expected to be outweighed by the potentially useful information for preparers and users in the public sector.
11. Based the IPSASB's instruction per paragraph 3(b) above and paragraph 7, Staff proposes the Basis for Conclusions paragraphs included in the [Agenda Item 7.3.1](#). See paragraphs [draft] ED 86.BC8-BC9.

Specific Matter for Comment

12. As noted in paragraph 3 above, departures from IFRS 6 in proposed [draft] ED 86 are limited. Consistent with past EDs for alignment projects with limited departures from the underlying IFRS, an SMC is proposed to request respondents whether they agree with the limited changes made in [draft] ED 86. See page 3 of [Agenda Item 7.3.1](#)

Other editorial changes

13. Minor editorial changes were made to [draft] ED 86 since the September 2023 IPSASB meeting. Refer to [Agenda Item 7.3.1](#) where these editorial changes are shown in mark-up. Please share any further editorials with staff directly.

Decision Required

14. Does the IPSASB agree with the [recommendation](#)?

Approval of ED 86, *Exploration for and Evaluation of Mineral Resources*

Question

1. Whether the IPSASB agrees with the recommendation to approve:
 - (a) Exposure Draft (ED) 86, *Exploration for and Evaluation of Mineral Resources*; and
 - (b) The normal four-month comment period.

Recommendation

2. Staff recommends that ED 86, *Exploration for and Evaluation of Mineral Resources*, be approved with a four-month comment period.

Background and Analysis

Due Process

3. The IPSASB approved a project brief for the *Natural Resources* project, in March 2020. That project brief considers the options on how IFRS 6, *Exploration for and Evaluation of Mineral Resources*, could be incorporated into IPSAS.
4. The [Consultation Paper, *Natural Resources*](#), which was published in May 2022, proposed the development of guidance aligned with IFRS 6. Respondents to the CP agreed with the IPSASB's proposal.
5. At the March 2023 meeting of the IPSASB members agreed that a separate ED aligned with IFRS 6 should be developed.

Exposure Period

6. Staff recommends a normal four-month comment period.
7. Staff recommends the publication date of ED 86, *Exploration for and Evaluation of Mineral Resources* be aligned with ED 88, *Natural Resources*. Refer [Agenda Item 7.2.6](#).

Decision Required

8. Does the IPSAS agree with the [recommendation](#)?

IFRIC 20 Alignment - Placement of Guidance

Question

1. Does the IPSASB agree with the recommendation to include the guidance aligned with IFRIC 20, *Stripping Costs in the Productions Phase of a Surface Mine* as an appendix to IPSAS 12, *Inventories*?

Recommendation

2. Staff recommends that guidance aligned with IFRIC 20 be included as Appendix A to IPSAS 12, *Inventories*.

Background

3. The [Project Brief](#) for the *Natural Resources* project included the key issue to explore how the project will consider the inclusion of IFRIC 20 into IPSAS. IFRIC 20 prescribes the accounting for costs incurred ("stripping costs") to remove surface materials to improve access to underground mineral reserves, where in some cases the removed materials are further processed to extract mineral ore, during the production phase of a surface mine. IPSAS currently do not provide specific guidance on the treatment of stripping costs.
4. The [Consultation Paper, Natural Resources](#) proposed that IFRIC 20 guidance should be considered for inclusion within IPSAS, and that IPSAS 12, IPSAS 17 (IPSAS 45) and IPSAS 31 should be supplemented as appropriate with the guidance. Respondents to the CP agreed with the inclusion of this guidance in IPSAS.
5. In March 2023, the IPSASB decided to take forward the development of EDs related to IFRS 6 and IFRIC 20. Subsequently the IPSASB decided that two EDs (one for IFRS 6 and one for IFRIC 20) should be developed and instructed staff to consider the appropriate placement of IFRIC 20.

Analysis

6. IFRIC 20 directs an entity to apply IAS 2, *Inventories* when the benefits from stripping activities are realized in the **form** of inventory produced (for example, usable ore found in the mine overburden). When the benefit is the improved **access** to ore (for example, removal of top-layer overburden to access the ore body), IFRIC 20 states that an entity shall recognize these costs as a non-current stripping activity asset, which is accounted for within IAS 16, *Property, Plant and Equipment*, or IAS 38, *Intangible Assets*, depending on the nature of the existing mineral-related asset.
7. While costs related to stripping activities can be capitalized to inventories, PP&E, or intangibles depending on their nature, the most relevant place to locate guidance aligned with IFRIC 20 in the IPSASB literature is an appendix to IPSAS 12, *Inventories*. This is because all costs will ultimately be recognized in inventories either:
 - (a) **Directly.** In IPSAS 12, *Inventories* the cost of converting inventory includes costs directly related to the units of production, such as direct labor. For a surface mining entity, these direct costs may include costs from stripping activities when IFRIC 20 is applied. Therefore, there is a direct relationship between the guidance in IFRIC 20 and IPSAS 12.
 - (b) **Indirectly.** Per IPSAS 12, the cost of converting inventory also includes fixed and variable production overheads (e.g., depreciation and indirect material), also referred to as indirect costs. For a surface mining entity, during production, the depreciation/amortization of a stripping activity asset, which the entity would likely have recognized in terms of IPSAS 45,

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Property, Plant and Equipment, or IPSAS 31, *Intangible Assets*, is included in the cost of mineral inventory produced, as an indirect cost, regardless of whether it was previously accounted for as property, plant, and equipment or an intangible asset. The ultimate inclusion of the amortization of a stripping activity asset in the cost of inventory is a further indication of the relationship between the guidance in IFRIC 20 and IPSAS 12.

8. Therefore, both direct and indirect costs, which result from the stripping activities of a surface mining entity, relate to the cost of mineral inventory produced, and is accounted for under IPSAS 12.
9. Staff concludes the guidance aligned with IFRIC 20 would be best placed in IPSAS 12 and recommends the inclusion of the guidance as an Appendix to IPSAS 12. The inclusion of the guidance is regarded as a consequential amendment, to be exposed as an amendment to IPSAS 12. See [Agenda Item 7.2.4](#).

Decision Required

10. Does the IPSASB agree with the [recommendation](#)?

IFRIC 20 Alignment - Development of [draft] ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

Question

1. Does the IPSASB agree with the revisions made in the development of [draft] Exposure Draft (ED) 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)?

Recommendation

2. Staff recommends the IPSASB approve the following revisions to [draft] ED 87 to add:
 - (a) Specific Matter for Comment (SMC), and
 - (b) Other revisions to the [draft] ED.

Background

3. At the September 2023 IPSASB meeting, staff proposed that the guidance aligned with IFRIC 20 be developed without significant adaptation, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB members agreed with staff on this proposal.
4. This paper addresses the IPSASB's September 2023 decision, and the necessary revisions to the now standalone ED to be considered before approval of [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), as identified below.

Analysis

Specific Matters for Comment

5. As noted in paragraph 3 above, departures from IFRIC 20 in proposed [draft] ED 87 are limited. Consistent with past EDs for alignment projects with limited departures from the underlying IFRS, an SMC is proposed to request respondents whether they agree with the limited changes made in [draft] ED 88. See page 3 of [Agenda Item 7.3.2](#).

Other revisions

6. Editorial changes were made to the guidance aligned with IFRIC 20 since the September 2023 IPSASB meeting (see [Agenda Item 16.3.1](#)). However, given the context change, i.e., the guidance aligned with IFRIC 20 is now proposed as a stand-alone ED and not included as an appendix to ED 86, *Exploration for and Evaluation of Mineral Resources*, this resulted in several editorials. A clean version of the document has been provided to support review (a tracked changes version is available upon request). See [Agenda Item 7.3.2](#).

Decision Required

7. Does the IPSASB agree with the [recommendation](#)?

Approval - ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

Question

1. Whether the IPSASB agrees with the recommendation to approve:
 - (a) Exposure Draft (ED) 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12); and
 - (b) The normal four-month comment period.

Recommendation

2. Staff recommends that [draft] ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), be approved with a normal four-month comment period.

Background and Analysis

Due Process

3. The IPSASB approved a [project brief](#) for the *Natural Resources* project to consider if and how IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, should be incorporated into IPSAS, either as a part of that project, which deals with accounting for the underlying natural resource itself, or as a separate project which relates to accounting for the activities performed to extract mineral resources. Following the [Consultation Paper, Natural Resources](#) and the analysis of comments thereon, the IPSASB agreed in March 2023 that a separate ED should be developed, aligned with IFRIC 20.

Exposure Period

4. Staff recommends a normal four-month comment period to align with the comment periods for ED 86, *Exploration for and Evaluation of Mineral Resources* and ED 88, *Natural Resources*.
5. Staff recommends the publication date of ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) be aligned with ED 88, *Natural Resources*. Refer [Agenda Item 7.2.6](#).

Decision Required

6. Does the IPSAS agree with the [recommendation](#)?

Aligning the publication of ED 86, *Exploration for and Evaluation of Mineral Resources*, and ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), with ED 88, *Natural Resources*

Question

1. Does the IPSASB agree with the recommendation to align the publication dates of Exposure Draft (ED) 86, *Exploration for and Evaluation of Mineral Resources*, and Exposure Draft (ED) 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), with Exposure Draft (ED) 88, *Natural Resources*?

Recommendation

2. Staff recommends that ED 86, *Exploration for and Evaluation of Mineral Resources*, and ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), be published with the ED 88, *Natural Resources*.

Background

3. The IPSASB identified the specific consideration of the incorporation of IFRS 6 and IFRIC 20 into the project on Natural Resources in the [Project Brief](#).
4. The IPSASB issued [Consultation Paper, *Natural Resources*](#) which included the development of guidance on accounting for exploration and evaluation costs, based on IFRS 6.
5. The IPSASB further deliberated and agreed during its meetings held in March and June 2023 to develop an ED aligned with IFRS 6, separate from the ED on Natural Resources, but as part of the broader project on Natural Resources. This paper summarizes Staff's analysis and recommendation.

Analysis

6. The content of the drafts of ED 86 and ED 87 are closely related to the content of draft ED 88, *Natural Resources*. This is confirmed by the inclusion of these topics in the Natural Resources project brief, and their inclusion in the CP, *Natural Resources* along with preliminary views on both topics (which were generally supported by constituents). Since the content of the EDs is linked, it would be appropriate to publish these as a package so constituents can consider concurrently.
7. Staff recommends the publication date of ED 86, *Exploration for and Evaluation of Mineral Resources*, and ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), be aligned with ED 88, *Natural Resources*.

Decision Required

8. Does the IPSASB agree with the [recommendation](#)?

Supporting Document – [Draft] IPSAS 86, *Exploration for and Evaluation of Mineral Resources*

1. [draft] ED 86 referenced in [Agenda Item 7.2.2](#) is posted separately for easier readability.
2. IPSASB members, Technical Advisors, and Observers are asked to note that a marked up version from the September 2023 IPSASB meeting, has been provided.
 - (a) All changes proposed by members since the September meeting are reflected in this supporting document.
 - (b) Changes are tracked from the version reviewed at the September meeting. Wording added or other changes added can be identified with Red-Underline formatting and deletions can be identified with ~~Red-Strikethrough~~ formatting.

Supporting Document – [Draft] ED 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

1. [draft] ED 87 referenced in [Agenda Item 7.2.5](#) is posted separately for easier readability.
2. IPSASB members, Technical Advisors, and Observers are asked to note that editorial changes were made to the guidance aligned with IFRIC 20 since the September 2023 IPSASB meeting (see [Agenda Item 16.3.1](#)). However, given the context change, i.e., the guidance aligned with IFRIC 20 is now proposed as a stand-alone ED and not included as an appendix to ED 86, *Exploration for and Evaluation of Mineral Resources*, this resulted in several editorials. A clean version of the document has been provided to support review (a tracked changes version is available upon request). See [Agenda Item 7.3.2](#).