## *New International Financial Reporting Standard Allows Market Value Reporting for Minerals and Petroleum Assets*

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On 9 December 2004, the International Accounting Standards Board (IASB) published International Financial Reporting Standard 6 (IFRS 6), *Exploration for and Evaluation of Mineral Resources* (see *New Standards* ..., Ellis, AIMA Newsletter, Oct. 2004, p. 7). This covers corporate financial reporting of mineral and petroleum assets from exploration until feasibility of development has been demonstrated. Due to its late publication, the effective date of the standard has been delayed one year to 1 January 2006, a year later than previously announced, though earlier use by companies is encouraged.

The IASB's December 9th press release states, "The publication of this IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and completes the first step in the IASB's project to achieve the convergence of widely varying accounting practices for extractive activities around the world." The second phase of the IASB's extractive activities project was begun in mid-2004. This is addressing development and operating minerals and petroleum assets, and should also result in enhancements to the extractive activities standards in general.

Paragraph 12 of IFRS 6 states, "After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in IAS 16 *Property, Plant and Equipment* or the model in IAS 38) it shall be consistent with the classification of the assets ...." In responding to a question from the author, Mr. Glenn Brady, leader of the IASB's Extractive Activities Project Team, provided his personal opinion (not IASB's) that this provision allows upward revaluation of an exploration property to a market-based value (after initial recognition at cost), including value increase due to a discovery within the property (communication dated 29 Nov. 2004). The earlier understanding of the author regarding application of the revaluation provision for exploration properties was that upward revaluation was being limited to that due to regional change in the value of exploration properties. For a company to implement this revaluation provision, it must rely on market value evidence as required by the revaluation models of the IFRSs, and abide by other requirements pertaining to "current cost" reporting in the IFRSs.

The IASB's Basis for Conclusions on IFRS 6, at BC 29 and BC 30, provides some confirmation and insight regarding the revaluation provisions:

> BC 29: "The IFRS permits an entity recognising exploration and evaluation assets to measure such assets, after recognition, using either the cost model or the revaluation model in IAS 16 and IAS 38. The model chosen should be consistent with how the entity

classifies the exploration and evaluation assets. Those revaluation models permit the revaluation of assets when specified requirements are met (see paragraphs 31-42 of IAS 16 and paragraphs 70-84 of IAS 38). The revaluation model in IAS 38 can be used only if the asset's fair value can be determined by reference to an active market; the revaluation model in IAS 16 refers only to 'market-based evidence'. ...."

BC 30: "A few respondents were also concerned with the option proposed in ED 6. Some did not agree that exploration and evaluation assets should be revalued, preferring an arbitrary prohibition of remeasurement. Others were concerned about the reliability of the measure. The Board concluded that no substantive reasons had been presented for reaching a different conclusion from that in ED 6. Although the revaluation of an exploration asset in accordance with IAS 16 or IAS 38 might not be widespread, it was not appropriate to prohibit remeasurement of exploration and evaluation assets on a selective basis."

Paragraph 10 of IFRS 6 states, "Expenditures related to the development of mineral resource shall not be recognised as exploration and evaluation assets. The *Framework* and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development." With this paragraph, the IASB has scoped out of the coverage of IFRS 6 commercially viable mineral and petroleum reserves. The author asked Mr. Glenn Brady for his opinion of whether the IFRSs allow revaluation for mineral and petroleum reserves after commercial viability has been demonstrated, despite the restricted coverage of IFRS 6. This proved to be a complex subject. In brief summary, Mr. Brady replied that if market value remeasurements are done correctly, and the philosophy and structure of the IFRSs is carefully followed, it is his opinion (not IASB's) that revaluations of mineral and petroleum reserves should be able to be made using the combination of the now existing standards of the IFRSs (personal communication, 17 Dec. 2004). The arguments within his discussion are quite complex, requiring the ability to reference the relevant individual IFRS and IAS standards to fully understand them.

The implementation of market value measurement in IFRS 6 for revaluation and impairment measurement of exploration and evaluation assets is an exciting development. Also exciting is that revaluations of mineral and petroleum reserves should be possible if the combination of the now existing standards of the IFRSs is carefully applied. These provisions will prove very beneficial to the minerals and petroleum industries. As of 1 January 2005, the large majority of developed countries of the world are enforcing the IFRSs for corporate financial reporting, as are many of the lesser developed countries. The USA and Canada are also rapidly progressing their convergence projects with the IFRSs.