

# Comments on Is AASB 6 still fit for purpose?

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# Comment structure

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Major results of interest

Doable possible improvements

Other possible extensions

# Major Results of Interest

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- Confirms that there is diversity in practice
  - Practices to capitalising E&E vary across entities
    - With some systematic variance between smaller (capitalise more) and larger entities
  - Some stakeholders would welcome additional guidance
    - Especially with respect to impairment
- Some evidence that area-of-interest provides a better unit of account and could be a place to narrow the diversity in practice
  - Not clear as to what is the importance of how the area-of-interest is defined
- With respect to reserves confirm that the JORC code works well
  - Appears to be consistent with the view that IFRS should not intrude
- Concerns with IAS 37 and restoration provisions
  - Possibility that the liability is ‘underreported’
- Distinct transactions & risk-sharing arrangements are relatively common in EI
  - These present challenges

# Doable possible improvements 1

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- Figures in paper illustrate only relative proportion of assets as capitalised E&E across classes
  - This limits understanding to the variance between classes of entities
  - Does not lend itself to inferences about differences in reporting outcomes flowing from different circumstances versus those from different judgements and application of standard
  - Providing additional descriptive stats within a class would help us understand better
  - To the degree that E&E expenditures can be identified (even for a subset), incorporating this could be informative about circumstances versus judgements and application
  - To the degree that impairments are available, that could also be informative with respect to the identified impairment question
  - Are there specific question responses that could be linked to any of the above analysis?
- Could anonymity not be protected while providing background of interviewee
  - Identify by type of preparer (junior, large), regulator, and accountant
  - Understanding the point of view would help with understanding concern and enhance any contribution

## Doable possible improvements 2

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- With respect to defining the area-of-interest the paper appears to view variability in the description of an area-of-interest as a problem. It states, 'This presents as a lack of consistency in disclosure of E&E assets and consequently difficulty in ascertaining compliance with AASB 6.'
  - Given the AASB definition on page 6,
    - Can the authors clarify whether the different descriptions represent fundamental differences among the entities across the different groups or are these essentially semantic?
    - Can some of the responses be used to assess this distinction?
    - An extension - How do users perceive these labels? As fundamentally different or semantic?

# Other possible extensions 1

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- The most obvious is to obtain some user interviews and integrate them into the analysis
  - Pose similar questions to users
  - As well per prior slide - Do users perceive area-of-interest labels as fundamentally different or semantic?
- The paper reports some inconsistencies in perceptions that it would be nice to resolve – perhaps questions could be developed to this end
- For example, the following quotes suggest that the accounting chosen does not matter to a significant degree, but presumably disclosure of E&E expenditure does.
  - feedback from users (to the IASB) supported the view that how E&E expenditure is accounted for is not a priority for them
  - most (Canadian) users are of the opinion that expensing all E&E would reduce diversity in practice
- Whereas in the empirical background it notes:
  - a positive association between capitalised E&E expenditures and share prices and a negative association between E&E expenditures written off and share prices
  - This suggests that how expenditures are accounted for adds information

## Other possible extensions 2

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- Obtaining user views could also be helpful on the possible underreporting of restoration obligations.
  - Could this affect risk perceptions or credit-worthiness?
  - Could this translate into risks related to a social license to operate?
  - Could it impact assessments of audit quality?
- An observation in the paper is that the limited guidance in IFRS 6:
  - ‘affords reporting entities significant flexibility. Not necessarily on purely the classic areas of, let’s say, exploration-evaluation-type costs, but even on other things, revenue recognition and the like.
  - The paper also notes several places where judgement is required and the accounting is ostensibly not clear for EI entities.
  - Gray et al make a related comment that the flexibility afforded to E&E under IFRS may lead to a perception that flexibility extends to other IFRS standards when applied in the EI sector.
  - An evaluation of whether the question responses from the interviewees can provide any further light on this issue would be interesting. The responses might also be informative with respect to some documented empirical outcomes with respect to the weak link between EI earnings and prices or returns.

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