

30 November 2018

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Caray Wharf
London E14 4HD
UK

Dear Sir/Madam

Project: Extractive Activities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) welcomes the opportunity to respond to whether we are aware if any significant developments in Extractive Activities since the issuance of the Discussion Paper Extractive Activities in 2010, in which we contributed.

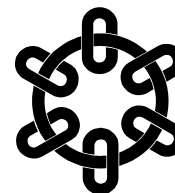
An outreach event was arranged on October 31, 2018 in Stavanger from which forms the basis for our response. 33 participants attended the event with representations from the following classes of stakeholders;

- 6 Oil and gas companies (Equinor*, Aker BP, ENI Norway, Repsol Norway, Wellesley Petroleum, Chairn Energy)
- 5 audit companies (BDO*, Deloitte*, EY*, KPMG* and PwC*)
- 4 NGO's (Norwegian Accounting Standards Board, UNECE-EGRC, The Norwegian Association for Oil Accounting and Tax and IASB)
- 3 Governmental organisations (Petoro, The Norwegian Financial Supervisory Authority* and The Norwegian Directorate of Mining)
- 1 large listed Norwegian company with limited extractive activities (Hydro*)
- 1 from academia (Norwegian School of Economics*)

* *Representative on the Norwegian Accounting Standards Board*

In addition, other discussions including with European preparers, are used as background for our observations.

Extractive Activities has on several areas undergone a change and development since the issuance of the 2010 Discussion Paper. Whether these changes are significant or not is debatable, but from the responses we received the changes observed has not created additional significant challenges with regards to financial reporting that cannot be solved through existing accounting guidance, questioning the need for a research project on Extractive Activities.



The general feedback from the outreach was that the respondents did not see a problem with the existing IFRS 6 and questioned the need for a change. The need for IFRS 6, or whether it could be withdrawn were discussed but reporting entities appreciate the standard, and then specifically with regards to impairment and capitalised exploration costs (successful efforts method). The successful efforts method is perceived as the dominant policy adopted for exploration cost.

That IFRS 6 was meant to be a temporary standard and that the standard open up for different accounting policies for the same transaction, that could result in reduced comparability, was discussed but companies tend to merge towards an industry practise or standard, and where chosen accounting policy is disclosed in the financial statements, so this was not viewed as a significant problem.

Selected areas of observed development in Extractive Activities since the 2010 Discussion Paper;

- ***Player picture / composition***

On the Norwegian Continental Shelf (NCS) we have seen an increase in number of active participants. Traditional oil majors are reducing their exposure or withdrawing from the NCS while there, partly due to tax incentives, has been an increase in minor players (listed and non-listed entities), that also are awarded operatorship. The risk profile of the players has hence changed.

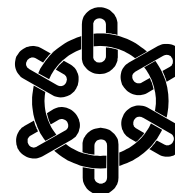
In addition the traditional international oil majors have an accounting policy legacy based on US GAAP and a portfolio view, while new entrants to the industry are not so bound to the traditional US GAAP solution (i.e. using expected reserves rather than proved reserves as basis for depreciation under the Unit of Production method) and often exposed to a single or few licenses.

- ***Lifetime extensions / staged developments / shared infrastructure and facilities***

As the oil and gas activities on the NCS are maturing we see that the economic lifetime of facilities are extended through improved oil recovery projects, satellite developments or being used as a host facility for nearby discoveries during period of own production or after own resources have been depleted. The traditional one-to-one relationship between the resources on a license and the initial facilities developed is reduced creating challenges in determining the unit of account and an appropriate depreciation profile that no longer may be the Unit of Production for all facilities.

- ***Unconventional onshore activities***

Unconventional onshore activities are characterised by larger areas with many and cheaper wells and a short lead time from investments decision to production, but also significantly higher decline rates than traditional oil and gas production. The CAPEX flexibility such development offers creates higher uncertainty with regards to estimating cash flows and in identifying the Cash Generating Unit (play, area or well) as the area of the play being developed will change based on the then prevailing economic condition (i.e. with regards to availability of transportation capacity, or demand for different products (oil, gas, NGL)). In



onshore acquisitions the developed part of the acquired acreage is often small and lead to judgment when assessing whether the acquisition is an asset acquisition or business combination. No unconventional onshore resources are discovered (or developed) in Norway.

- ***Risk sharing or performance-based payments***
The use of variable or performance-based contracts are increasing resulting in higher uncertainty in expected cash outflows and increases the complexity in determining whether payments under a lease (IFRS 16) is fixed or variable.
- ***Sustainability / Climate impact / Payments to Governments***
Additional reporting requirements related to sustainability, climate or payments to governments is regulated outside IFRS, but there is a trend towards integrated reporting in order to avoid duplication of information.

Questions raised by the IASB:

Question 1

Have there been significant changes in extractive activities that have given rise to:

- (i) changes to or new accounting policies used by entities;*
- (ii) new financial reporting issues; or*
- (iii) changes in the risk profile of entities?*

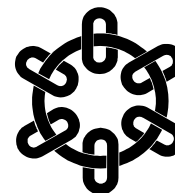
Implementation of IFRS 15 Revenue from Contracts with Customers (classification of i.e. revenue related to taxes paid in kind under PSA regimes, or the applicability of the entitlement method) and IFRS 16 Leases (liability to be recognised by the operator versus partners in a license) has and will create changes and challenges for the industry, but should be resolved within the frame of existing standards rather than through a separate Extractive Activities standard.

Several respondents in the outreach commented upon that their main concern was not related to the current IFRS 6, but other standards such as IAS 12 (i.e. recognition of deferred tax and related “technical goodwill” in an after tax transaction considered a business combination), IFRS 3 (what in substance is an asset acquisition ends up as a business combination – we are aware of the current amendments made to IFRS 3, but not sure this solves the issue) or IAS 38 (the resources of an oil and gas company often not in the balance sheet). The IAS 12 issue is especially a concern in Norway where the tax rate for oil and gas activities is 78%, leading to significant goodwill in an acquisition of an oil or gas license that constitute a business or is part of a business.

We refer to discussion above with regards to new financial reporting issues and changes in risk profile.

Question 2

Have there been changes in activities such that new industries have been established in your jurisdiction that you consider should be included in the scope of extractive activities?



None noted

Question 3

Have there been changes in the reserve and resources classification systems used by entities in your jurisdiction that have resulted in a significant change to the reserves and resources calculated by those systems?

Legal requirement to report in accordance with resource classification system set by the Norwegian state. System close to PMRS. No significant change in the use of classifications systems since the 2010 Discussion Paper. The development of the UN classification system was mentioned, but not taken in use in Norway by any of the respondents.

Question 4

Have there been significant changes in the regulatory requirements in your jurisdiction to disclose information on extractive activities, including reserve and resource disclosures? What information is now (or no longer) required?

No significant changes other than requirement in EU to disclose Payments to Governments for extractive activities, which is implemented with some additional requirements in Norway.

Question 5

Are there any other significant changes in the extractive industry that you want to make the Board aware of, including in other jurisdictions if you are aware of any such changes?

None other than already commented upon.

You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse