



30 July 2010

International Accounting Standards Board
30 Cannon Street
London ECAM 6XH
United Kingdom

Re: Extractive Activities Discussion Paper DP/2010/1

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF), the accounting standards setting body in Mexico welcome the opportunity to submit its comments on the ***Extractive Activities Discussion Paper (DP)***. Set forth below you will find our responses to the specific questions that are included in the Discussion Paper.

GENERAL

We do not believe that the mineral and oil and gas industries require of a special IFRS developed only for them; such industries should apply the same IFRSs as all other industries. We know there is a number of different accounting practices been applied by mineral and oil and gas industries in different countries or jurisdictions. However, we believe that there is no sufficient justification for establishing a new IFRS model for the recognition and measurement of the extractive industries. We recommend that instead of developing a new IFRS guides on mining, natural gas and oil activities be issued

Since 1 January 2006 non-US oil and gas and mining companies have been reporting under IFRS 6 ***Exploration for and Evaluation of Mineral Resources*** for exploration and measurement activities and under the general IFRS standards for development and production activities and we have no knowledge of significant problems that have arisen as a result of not having an specific IFRS standard on extractive industries. Thus it seems to us that it is not urgent to issue specific rules for the extractive industries and that IASB should take whatever time is necessary for developing accounting guides for the extractive industry without imposing accounting requirements that may prove to be unneeded and unnecessarily costly.

We believe that the disclosures on reserves of the oil and gas industry required in the DP are excessive and that the gathering of the necessary information to prepare such disclosures may require excessive and unjustified costs. We recommend that the IASB's DP project team considers the new annual report disclosure rules for oil and gas entities issued by the Financial Accounting Standards Board and the Securities and Exchange Commission of the United States which became effective on 31 December 2009 and

carefully reconsiders the information that must be included in the notes to the financial statements and the information that the entities' management should disclose in the annual report.

Our comments on the specific "invitation to comment" questions included in the DP are included below.

Question 1 – Scope of extractive activities

In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas. Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

If notwithstanding our objection expressed in the first paragraph under **General** above it is decided that a specific IFRS on accounting and reporting (disclosure) in the extractive activities is to be issued we agree that it should include only upstream activities for minerals, oil and natural gas. However, we believe that if such IFRS is issued it should justify why special standards are required for the extractive activities or why a separate accounting model is required for such activities. We concur with the idea that minerals, oil and gas are highly sophisticated activities but we do not find arguments to sustain why such activities are so much different from other industries as to make it necessary to have rules different to those stated in IFRSs such as IASs 16, 36 and 38. It seems to us that what is required is the issuance by IASB of guides to apply the rules of IFRSs in extractive activities such as minerals, and oil and natural gas. Also, we believe that for that purpose other industries such as the pharmaceutical should be contemplated.

Question 2 – Approach

Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification or differentiating between the two industries?

If as we suggest in our answer to Question 1 guidance for the application of IFRSs is issued to be applied by the minerals and oil and gas industries similar guidelines for all the other special activities (such as pharmaceutical) should be issued by IASB. Also, as stated in our response to Question 1, in our opinion a separate accounting model is not required to be applied to the extractive activities

Question 3 – Definitions of minerals and oil and gas reserves and resources

In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (SPE) (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

We concur with the use of PRMS (Petroleum Resource Management System) or SPE as a basis for determining reserves. However, in our opinion definitions of minerals and oil and gas reserves and resources should be developed by IASB considering existing suitable definitions in extractive activities. For this purpose it seems to us that a considerable advance has been attained in Chapter 2- **Definitions of reserves and resources** of the DP.

Question 4 – Minerals or oil and gas asset recognition model— recognition

In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a ‘minerals or oil and gas property’. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights. Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised and when should they be recognised initially?

We believe that instead of adopting a new asset concept the definitions contained in the current IFRSs should be used. In our opinion the DP proposal of asset is inconsistent with the current Framework of IASB. Paragraph 57 of the Framework states “...In determining the existence of an asset the right of ownership is not essential; ...” whereas the DP establishes “... **that legal rights, such as exploration rights or extraction rights, should form the basis of an asset ...**” Additionally, IASB should consider the removal of paragraphs 2(c) and 2(d) from IAS 38 in order to require the application of paragraphs 21, 22 and 23 to all extractive industries including mineral and oil and gas activities.

The initial acquisition of legal rights to explore or extract minerals, gas and oil constitutes an asset which in accordance with IASB 38, **Intangible Assets** should be recognized at cost at the acquisition date.

In our opinion the DP should more clearly disclose the basis used for reaching the accounting treatment as assets’ enhancement prescribed for the accounting of costs subsequent to the acquisition of the legal rights. In accordance with IAS 38, **Intangible Assets** costs subsequent to acquisition of an intangible asset are charged to income as soon as +incurred.

Question 5 – Minerals or oil and gas asset recognition model—unit of account selection

Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team’s view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and

would be expected to generate largely independent cash flows.

The project team's view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

Definition of "unit of account" should be in the Framework and not in an IFRS. The "unit of account" should be flexible without being limited by legal rights. The basis for reducing and increasing the "unit of account" should be clearly described in the DP. Regarding exploration, drilling and development costs we concur with the application of the principle of "cash generating unit" stated in paragraph 56 of IAS 36, *Impairment of Assets*. Management should be permitted to apply its judgment within the context of the relevant standards and the Framework

Question 6 – Minerals or oil and gas asset measurement model

Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties. The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information. The project team's view is that these assets should be measured at historical cost but that detailed disclosure about the entity's minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

We agree that assets be measured at historical cost and that detailed disclosure about the entity's or oil and gas properties should be provided to enhance the relevance of the financial statements.

Question 7 – Testing exploration properties for impairment

Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 Impairment of Assets. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties,

management should:

(a) write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and

(b) apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

Do you agree with the project team's recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

We do not concur with the proposal. In our opinion the impairment rules in IAS 36, **Impairment of Assets** should be applied by all entities including those conducting extractive activities. In our opinion expressed under **General** above, we state "We do not believe that the mineral and oil and gas industries require of a special IFRS developed only for them; such industries should apply the same IFRSs as all other industries."

Question 8 – Disclosure objectives

In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:

(a) the value attributable to an entity's minerals or oil and gas properties;

(b) the contribution of those assets to current period financial performance; and

(c) the nature and extent of risks and uncertainties associated with those assets.

Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

Disclosures of information are very important in the financial statements of all entities and not only in the extractive industry. In our opinion the proposed disclosures are onerous and voluminous.

Question 9 – Types of disclosure that would meet the disclosure objectives

Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:

(a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;

(b) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;

(c) a reconciliation of changes in the estimate of reserves quantities from year to year;

(d) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;

(e) separate identification of production revenues by commodity; and

(f) separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).

Would disclosure of this information be relevant and sufficient for users? Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

See our response to **Question 8** above. The information required on probable, proved, developed and underdeveloped reserves should be included in the entities' annual reports and thus should not be required in the DP as information to be disclosed in the notes to the financial statements of extractive activities. Also, the disclosures proposed in the DP should not require current or fair value information since this information is not required by IFRSs to all entities. Adequate weight should be given in the DP to the new annual report disclosure rules for oil and gas entities issued by the Financial Accounting Standards Board and the Securities and Exchange Commission of the United States which became effective on December 31 2009.

Question 10 – Publish What You Pay disclosure proposals

Chapter 6 discusses the disclosure proposals put forward by the Publish What You Pay coalition of non-governmental organisations. The project team's research found that the disclosure of payments made to governments provides information that would be of use to capital providers in making their investment and lending decisions. It also found that providing information on some categories of payments to governments might be difficult (and costly) for some entities, depending on the type of payment and their internal information systems.

In your view, is a requirement to disclose, in the notes to the financial statements, the payments made by an entity to governments on a country-by-country basis justifiable on cost-benefit grounds? In your response, please identify the benefits and the costs associated with the disclosure of payments to governments on a country-by-country basis.

At all times IASB must remain away from any socio-economic and political influence and disclosures. For this reason we believe it improper to include in the DP the disclosure proposals put forward by the Publish What You Pay (PWYP) coalition of non-governmental organisations. If such disclosures were considered as necessary by the project team they should have been independently developed by IASB without influence from PWYP or any other similar organisation. In our view the inclusion in the DP of the PWYP proposals establishes a dangerous precedent because other socio-economic and political organisations may request in the future equal treatment from IASB:

We understand that disclosing in the financial statements information on payments made to governments on a country-by-country basis may be important for certain users of the financial statements and on this basis we consider that a requirement to disclose such information may be justified. However, we believe that providing such information may be difficult and costly and thus not justifiable. The final decision should be made considering the opinions and arguments on this subject to be received by the project team from the entities involved in extractive activities.

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Should you require additional information on our comments listed above, please contact me or J. Alfonso Campana-Roiz at 00-52-55-55965633 or 00-52-55-55965634 or by e-mail at

fperezcervantes@cinif.org.mx with copy to acampana@cinif.org.mx

Sincerely,

C.P.C. Felipe Perez Cervantes
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano para la Investigación y Desarrollo
de Normas de Información Financiera (CINIF)