New on the Horizon: Decommissioning in the extractive industries

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In January 2010 the International Accounting Standards Board published a limited scope exposure draft on the measurement of liabilities, which should be of significant interest to companies in the extractive industries.

Oil and gas and mining companies often have large commitments in respect of the decommissioning, clean-up and rehabilitation of sites, and the measurement of these obligations is likely to be impacted by the proposals. These commitments can be legal, contractual and/or constructive obligations, and are likely to be a significant item of expenditure for these companies.

Furthermore, the cost of settling an obligation can be difficult to estimate owing to the high level of judgement involved in estimating the future costs that will be incurred. The work required to restore a site may be impacted by future technological developments, while the cost of carrying out the engineering and other works involved is impacted by the demand for engineers and other skilled labour. These are just two of the factors that make estimates of future decommissioning inherently imprecise.

The proposals, on which comments are due by 19 May 2010, are discussed in our publication New on the Horizon: Measurement of liabilities in IAS 37, and areas of the proposals are highlighted that may result in a change of practice, some of which could be significant. The examples in the publication are based on an oil rig that will require dismantling in the future. Click here to access the publication.
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