

1 September 2004



**The Institute of
Chartered Accountants
in Australia**

Colin Fleming
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

E-mail: cfleming@iasb.org.uk

Dear Colin

ED 6 ‘Exploration for and Evaluation of Mineral Resources’

The Institute of Chartered Accountants in Australia (‘the Institute’) welcomes the opportunity to comment on the the latest deliberations of the International Accounting Standards Board (‘the Board’) in relation to ED 6.

You will recall that the Institute’s May 2004 submission on ED 6 insisted that the recognition and measurement requirements set out in Australian GAAP (AASB 1022 ‘Accounting for the Extractive Industries’) should be grandfathered while the IASB continued with its work on developing a comprehensive Standard. It is not clear to us that the latest drafting being considered by the Board will achieve the grandfathering objective.

Proposed Paragraph 4

Proposed paragraph 4 requires that an entity would account for pre-exploration and development costs in accordance with the criteria for the recognition and measurement of assets in the IASB Framework. What is the intended meaning of ‘pre-exploration and development costs’ and why is it necessary to introduce this term in a proposed standard that deals with exploration, evaluation and development costs?

We are unsure whether the Board intends by proposed paragraph 4 that accounting policies in the extractive industries must be made to comply with the IASB Framework without little direction or guidance on how this is to be achieved. If that is the Board’s intention, then the Institute is strongly opposed to it.

The Institute view is that Australian mining companies must have certainty about accounting for exploration and evaluation activities for 2005 convergence and this cannot be achieved by a general edict to comply with the IASB Framework.

The Institute position is that the ‘area-of-interest method’ set out in AASB 1022 must continue to have application in Australia until the IASB have completed a comprehensive industry standard. In particular, the capitalisation of exploration and evaluation costs for an area of interest should be allowed while there are current rights of tenure and the position of economically recoverable reserves is yet to be determined.

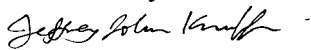
Proposed paragraphs 12-13

A guiding principle of the Board should be to ensure that any accounting policies for the recognition, measurement and impairment of exploration and evaluation assets are internally consistent. If the recognition of exploration costs as an asset is determined using the area of interest method, then the impairment of that asset must proceed on the same basis.

The Institute requests that the Board make it clear in the drafting of the proposed standard that impairment testing is allowed to be undertaken in manner that is consistent with the area of interest method. In this context, the Institute agrees with Board's tentative decision that an entity should assess an exploration and evaluation asset for impairment when specific facts and circumstances indicate that the carrying amount of such an asset exceeds its recoverable amount. The Institute concurs with the indicators at proposed sub-paragraphs 13(a) to 13(f) provided that they can also be applied to an area-of-interest comprising more than one mine or one well.

Should you require any further elaboration on our comments, please do not hesitate to contact the writer by e-mail at techsec@icaa.org.au.

Yours sincerely



Jeffrey Knapp CA
Technical Consultant

c.c. David Boymal, Chairman, Australian Accounting Standards Board