CL 45

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY
Telephone +44 (0) 20 7583 5000
Facsimile +44 (0) 20 7822 4652

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

15 April 2004

Dear Mr Fleming

Exposure Draft 6 Exploration for and Evaluation of Mineral Resources ("ED 6")

We are responding to your invitation to comment on the above exposure draft on behalf of the worldwide organisation and Global IFRS Board of PricewaterhouseCoopers.

Need for IFRS Guidance for extractive industries

We welcome the Board's efforts in providing more guidance on IFRS for entities in the extractive industries. The present scope exclusions in IAS 16 and IAS 38 raise questions on how to account for costs arising from exploration and evaluation efforts. We agree that the scope exclusions should be addressed before 2005 in an interim standard. We encourage the Board to develop a comprehensive standard for the extractive industries following completion of the stable platform for 2005. The global nature of the extractive industry makes convergence a high priority and we believe the IASB should work with the FASB on this project.

Our concerns about the current proposals

We understand that the Board's objective in providing the proposed guidance is to enhance comparability between entities, while not forcing a change to entities' accounting for exploration and evaluation expenditures, pending a comprehensive accounting standard for the industry.

The proposals as drafted will not provide this relief or enhance comparability. The decision to retain the IAS 36 impairment test may result in many of the assets recognised under an entity's previous accounting policy being impaired soon after initial recognition. The conflict between the accounting basis for capitalisation of costs and the accounting basis for impairment of assets is not solved by modifying the application of the impairment test to the larger "cash generating unit for exploration and evaluation assets". This has the effect of allowing mature entities with producing properties to mask impairments that other entities would be forced to recognize.

PRICEWATERHOUSECOOPERS

Our preference is that all standards should be in accordance with the principles of the Framework. We agree, however, that interim guidance would be very useful for entities in the extractive industries adopting IFRS for 2005. We concur with the Board that there is insufficient time to develop guidance working from the Framework. An alternative interim standard could be based on the successful efforts method described in US SFAS 19 *Financial Accounting and Reporting by Oil and Gas Producing Companies.* SFAS 19 provides sufficient guidance to achieve consistent results in practice and is relatively close to the IFRS Framework. The Board should therefore consider amending ED 6 to incorporate the guidance contained in SFAS 19 on the successful efforts method.

The use of existing industry guidance, as a temporary expedient alternative to developing accounting policies from first principles, will improve comparability between entities. Many petroleum companies currently applying IFRS or national GAAP where there is no industry guidance currently follow the guidance in SFAS 19 Petroleum is a particularly global industry and the SFAS 19 methodology is understood by entities and analysts in the industry.

We acknowledge that a successful efforts approach would not provide significant relief for many mining entities however, larger mining companies have already adopted the successful efforts principles as a basis for their reporting.

The nature of the exploration process, the predictive abilities and the risks are significantly different between the petroleum industry and the mining industry. Any future standard that the Board develops for the extractive industries must therefore provide adequate guidance to assist both mining entities and petroleum entities.

Our detailed responses to the questions in the exposure draft are enclosed in the annexure. If you have any questions in relation to this letter please do not hesitate to contact Jochen Pape, Chair of the PwC Global IFRS Board (+49 211 981 2905), or Jan McCahey (+61 3 8603 3868).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

Annex

Responses to detailed questions

Question 1 - Definition and additional guidance

The proposed IFRS includes definitions of exploration for and evaluation of mineral resources, exploration and evaluation expenditures, exploration and evaluation assets and a cash-generating unit for exploration and evaluation assets. The draft IFRS identifies expenditures that are excluded from the proposed definition of exploration and evaluation assets. Additional guidance is proposed in paragraph 7 to assist in identifying exploration and evaluation expenditures that are included in the definition of an exploration and evaluation asset (proposed paragraphs 7 and 8, Appendix A and paragraphs BC12-BC14 of the Basis for Conclusions).

Response

We support the definitions of exploration for and evaluation of mineral resources and exploration and evaluation expenditures included in ED 6. We also support the guidance proposed in paragraphs 7 and 8 to assist in identifying exploration and evaluation expenditures.

Question 2 - Method of accounting for exploration for and evaluation of mineral resources

(a) **Paragraphs 10-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* specify sources of authoritative requirements and guidance an entity should consider in developing an accounting policy for an item if no IFRS applies specifically to that item. The proposals in the draft IFRS would exempt an entity from considering the sources in paragraphs 11 and 12 when assessing its existing accounting policies for exploration and evaluation expenditures by permitting an alternative treatment for the recognition and measurement of exploration and evaluation assets. In particular, the draft IFRS would permit an entity to continue to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.**

(b) **The Exposure Draft proposes that an entity would continue to use its existing accounting policies in subsequent periods unless and until the entity changes its accounting policies in accordance with IAS 8 or the IASB issues new or revised Standards that encompass such activities (proposed paragraph 4 and paragraphs BC8-BC1 1 of the Basis for Conclusions).**

Are these proposals appropriate? If not, why not?

PRICEWATERHOUSECOOPERS

Response

We do not agree with the proposals. Allowing entities to continue to apply their existing accounting policy for capitalisation of costs whilst requiring the application of IAS 36 for impairment does not provide a consistent approach to capitalisation and impairment. The effect will be that many entities will capitalise costs that will need to be impaired soon after recognition.

The proposal that entities may continue to apply their existing accounting policies to the capitalisation of costs will also fail to enhance comparability between entities, one of the Board's stated objectives.

Question 3 - Cash-generating units for exploration and evaluation assets

[Draft] IAS 36* requires entities to test non-current assets for impairment. The draft IFRS would permit an entity that has recognised exploration and evaluation assets to test them for impairment on the basis of a 'cash-generating unit for exploration and evaluation assets' rather than the cash-generating unit that might otherwise be required by [draft] IAS 36. This cash-generating unit for exploration and evaluation assets is used only to test for impairment exploration and evaluation assets recognised under proposed paragraph 4 (see proposed paragraphs 12 and 14 and paragraphs BC15-BC23 of the Basis for Conclusions).
*** in Exposure Draft of *Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets* (December 2002)**

Are the proposals appropriate? If not, why not? If you disagree with the proposal that exploration and evaluation assets should be subject to an impairment test under [draft] IAS 36, what criteria should be used to assess the recoverability of the carrying amount of exploration and evaluation assets?

Response

We do not agree with the proposals as presented in the ED. Applying the IAS 36 impairment test to assets that have been capitalised on a basis other than the one set out in the IFRS Framework is likely to result in significant costs being impaired soon after they are recognised. This means that the Board's objective of avoiding disruption to existing accounting treatments will not be achieved. The impairment test should apply the same criteria as is used by the capitalisation policy.

We also disagree with the proposals to modify the definition of a cash generating unit to create the "cash generating unit for exploration and evaluation" (CGUEE). The use of the CGUEE could result in an entity using the cash flows from a producing property to shelter an unrelated exploration property from impairment. Entities that have only exploration properties will not be able to benefit from the modified definition.

The Board should consider amending ED 6 to incorporate the US GAAP successful efforts guidance (FAS 19) for the capitalisation of costs and to incorporate the US GAAP impairment guidance for oil and gas entities (FAS 19 for unproved properties and FAS 144 for proved properties) for the measurement of impairment of those assets.

Question 4 - Identifying exploration and evaluation assets that may be impaired

The draft IFRS identifies indicators of impairment for exploration and evaluation assets. These indicators would be among the external and internal sources of information in paragraphs 9-13 of [draft] IAS 36 that an entity would consider when identifying whether such assets might be impaired (paragraph 13 and paragraphs BC24-BC26 of the Basis for Conclusions).

Are these indicators of impairment for exploration and evaluation assets appropriate? If not, why not? If you are of the view that additional or different indicators should be used in assessing whether such assets might be impaired, what indicators should be used and why?

Response

We agree that the indicators identified in the ED are appropriate and helpful for identifying potential impairment of exploration and evaluation assets. The Board should identify further those indicators that are relevant to unproved properties and those that are relevant to proved properties.

Question 5 - Disclosure

To enhance comparability, the draft IFRS proposes to require entities to disclose information that identifies and explains the amounts in its financial statements that arise from the exploration for and evaluation of mineral resources (proposed paragraphs 15 and 16 and paragraphs BC32-BC34 of the Basis for Conclusions).

Are the proposed disclosures appropriate? If not, why not? Should additional disclosures be required? If so, what are they and why should they be required?

Response

We concur with the proposed disclosures as outlined in paragraphs 15 and 16 of ED 6. If the proposed definition of a 'cash generating unit for exploration and evaluation assets', and the existing impairment test as proposed by paragraphs 12 -14 is maintained, then the disclosure of exploration and evaluation accumulated costs by segment should also be provided to help the reader assess any sheltering of exploration and evaluation assets within a segment.