The South African Institute of Chartered Accountants

31 August 2004

CL 62

Mr. Colin Fleming
Project Manager
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: commentletters@iasb.org.uk
Fax: +44 (020) 7246 6411

Dear Colin

REDELIBERATIONS ON EXPOSURE DRAFT 6 – *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES*

In response to your request for comments on the issue of special cash generating units (CGU's) as discussed in ED 6 - *Exploration for and Evaluation of Mineral Resources*, attached please find the comments from the South African preparers of the SAICA Extractive Industries Project Group. These comments are predominantly from the mining industry.

We would like to thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director - Accounting

cc: Doug Brooking (Chairman of the Accounting Practices Board)
Geoff Everingham (Chairman of the Accounting Practices Committee)

COMMENT LETTER FROM THE PREPARERS OF THE EXTRACTIVE INDUSTRIES PROJECT GROUP OF (SAICA) ON ED 6 - REDELIBERATIONS

Question raised by the IASB for comment (level at which impairment is tested)

ED 6 proposed a special cash generating unit (CGU), an idea that was almost universally unpopular with respondents. In the redeliberations, the staff proposed eliminating the special CGU, effectively requiring IAS 36 – *Impairment of Assets* to be used; ie recognise impairment at the asset level or at the CGU if the asset does not have independent cash inflows.

One of the criteria for identifying an asset is the existence of an active market for the outputs (IAS 36, paragraph 70). The markets for oil and almost all commodities meet the definition of an active market in the standard. This means that impairment would be tested at the well/mine level when an entity is able to identify independent cash flows associated with each well. While the IASB is content with that decision, they are concerned that constituents might not have realised the impact of their suggestion to apply IAS 36 without the special CGU.

Therefore, the IASB has asked the staff to solicit comments on this narrow issue.

Response from South African constituents

Investment Analyst / JSE Securities Exchange South Africa representative
I believe that the staff recommendation is correct and that IAS 36 should be applied in full, notwithstanding the IASB concerns and because the entire standard would be applied, this is technically more defensible than applying a "diluted" version.

Gold Fields Limited
Gold Fields position on this is that impairment should be done at the lowest CGU, which in our case is at mine complex level. To use a shaft is not feasible unless the shaft is a total stand-alone in a mine complex, like our Oryx mine in the Free State. All our other mining assets are looked at, at a mine level, as the shafts making up the mine complex level are so inter-linked and interdependent of each other for pumping, hoisting, etc.

AngloGold Limited
AngloGold apply IAS 36 in determining impairment at a mine level and believe this is the appropriate approach to follow. We do not believe a special CGU, outside of IAS 36, is necessary.

Harmony Gold Mining Company Limited
Harmony understands that respondents do not want to support the cash-generating unit for exploration and evaluation assets. It is often difficult to estimate cash-flows for these assets at an early stage. Applying a special cash-generating unit might suggest that these assets do not generate cash flows in their own right, but that is not necessarily the case.

COMMENT LETTER FROM THE PREPARERS OF THE EXTRACTIVE INDUSTRIES PROJECT GROUP OF (SAICA) ON ED 6 - REDELIBERATIONS

Kumba Resources Limited

Even though the exposure draft refers to CGU's that are dependant on other assets or group of assets in the group, the focus will be on IAS 36 paragraph 70, where it states that if an active market exits then that specific asset shall be viewed as a CGU.

It is our opinion that the CGU definition should include all other assets required to make the whole of the business venture commercially viable and not just an active and available market test. This view on CGU assets should stretch over legal entities within a group.

Conclusion

We do not support the special CGU for exploration and evaluation assets and believe that IAS 36 should be applied in full. The SAICA comment letter, dated 16 April 2004, on ED 6 also made reference to this aspect as follows:

"We agree with the principle of subjecting exploration and evaluation assets to impairment testing. We are, however, concerned that testing for impairment on the basis of a 'cash-generating unit for exploration and evaluation assets' may favour entities engaged in both mining operations and exploration as they will be able to mix the cash flows from their mining operations and potentially strong exploration properties. The effect could be to "shelter" the capitalised exploration and evaluation expenditure relating to weak or unproven exploration properties, that otherwise would be expensed.

We are further concerned by the proposed methodology, which might be interpreted to imply that the exploration and evaluation assets do not have a recoverable amount in their own right."

#77683