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from the nation's business enterprises

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GROUP OF 100

15 April 2004

Mr Colin Fleming
International Accounting Standards Board
30 Cannon Street
LONDON EC4 6XH U.K.

Dear Mr Fleming

ED 6 'Exploration for and Evaluation of Mineral Resources

The Group of 100 (G100) is pleased to provide comments on ED 6. Our comments IASB questions are attached.

The G100 believes that the current 'stop-gap' approach to accounting in the extractive industries is inimical to achieving the objective of international comparability of financial reports. While we acknowledge that the present approach can, at best, only be a short-term response to the issues in the industry we believe that the development of a comprehensive standard should be a high priority. This is of particular importance in Australia's case because the extractive industries constitute a significant part of the Australian economy in terms of trade, employment and regional development. The sector is responsible for over 8.5 % of Australia's Gross Domestic Product and accounts for 37 % of Australia's merchandise exports. In view of its significance to Australian companies we are concerned that little work appears to have been undertaken in advancing a comprehensive standard since the IASC issued an Issues Paper 'Extractive Industries' in 2000.

The G100 also notes that the proposed application date of the Standard is annual periods beginning on or after 1 January 2005 which coincides with the application date of the Year 2005 package of standards. Accordingly, the G100 considers that this Standard, which will not be issued until shortly before its application date, means that in substance, for companies in this industry the Year 2005 package at 31 March 2004 is incomplete.

Yours sincerely

John V Stanhope
National President

GROUP OF 100 COMMENTS ON
ED 6 EXTRACTIVE INDUSTRIES

Q1 *Definition and Additional Guidance*

Because of the different nature of exploration activities and evaluation the G100 suggests that the terms be defined separately. In this regard the Australian Standard AASB 1022 'Accounting for the Extractive Industries' contains separate definitions of the terms exploration and evaluation. Whether the definition is changed or not we believe that guidance is required to enable companies to identify when the E&E phase is complete and the development stage commences. Such guidance will clarify the stage at which other IASB Standards come into effect and when a different form of impairment testing is appropriate.

The standard should also prescribe that exploration and evaluation assets acquired through purchase should be capitalised at the amount paid for such assets, being an indication of current fair value. A different form of impairment testing is required for purchased 'non-producing' assets such as a remote gas field awaiting development of a gas market.

Q2 Method of Accounting for exploration for and evaluation of mineral resources

The proposals are acceptable in the context of being a 'stop-gap' until the completion of a comprehensive project and to enable companies to achieve compliance with IASB Standards. However, while this approach to grandfather existing treatments is retained, comparability of financial statements will not be achieved.

Because the proposals 'grandfather' existing national requirements and the extensive experience of applying AASB 1022 in respect of exploration and evaluation expenditures it is unlikely that the proposed Standard will have significant impact on this aspect of Australian practice. However, the proposals do not effectively address those circumstances where, on first-time application of IASB Standards, a company chooses to adopt a 'new' accounting policy as permitted under paragraph 11.

Q3 Cash generating units for exploration and evaluation assets AND
Q4 Identifying exploration and evaluation assets that may be impaired.

There does not seem to be any recognition of the fundamental premise of the exploration and evaluation (E&E) business cycle which is the creation of value through the management of risk or uncertainty. As part of this activity, value is created through the refinement of opportunities, leads to prospects, to targets, to resource and eventually successful outcomes.

The impairment testing regime in ED 130 appears to be more stringent than that applying in AASB 1022 'Accounting in the Extractive Industries'. This change in the requirements may have a significant impact on those companies with significant activities in exploration projects, particularly those that have not reached a stage which permits a reasonable assessment of its success or otherwise.

The main impact occurs when the impairment process is applied. Under the IAS36 approach the whole premise of the tests is that there is a discrete set of cash-flows (value in use) that attach to a given E&E 'asset'. This is essentially a single case deterministic value assessment. However, the nature of the E&E business requires a more probabilistic/risk weighted/portfolio approach. We believe that an expected monetary value (EMV) methodology is a more appropriate method to assess recoverability of exploration and evaluation assets and is already commonly used in the oil and gas industry world wide.

The definition of a cash-generating unit for E&E assets is written as if E&E assets are like corporate assets and must be carried by the surplus of current income producing assets. Given that these assets cannot be larger than a business segment, even mature companies will have E&E assets in segments where there is current production. It is important that there is sufficient flexibility in the tests for E&E assets to be evaluated on their own merits. As the proposed amendments to IAS 16 do not address amortisation, it is not clear whether entities are to amortise exploration and evaluation assets on a CGU or CGU - E&E asset basis, or whether entities are to amortise these assets under the requirements of IAS 16. IAS 16 only refers to depreciation by single assets and has no provision for the accumulation and amortisation of costs on a cash-generating unit or any other basis. To be consistent with the concept of CGU - E&E asset, ED 130 should clarify that all exploration and evaluation assets within a CGU - E&E asset should be amortised on a unit-of-production basis as the reserves within the CGU - E&E asset are produced.

Q5 Disclosure

The G100 considers that the proposed disclosures are appropriate.

Other Comments

a. **PARAGRAPH 6: The G100 suggests that paragraph 6 be expanded to clarify that exploration and evaluation assets include both direct and indirect (overhead) costs arising during exploration and evaluation activities. In this regard clarification of the types of overhead costs that may be capitalised is significant as AASB 1022 is currently permissive.**

b. **TRANSITIONAL REQUIREMENTS: Under paragraphs 4 and 11 companies may continue to apply existing national requirements or change to accounting policies that provide more relevant or reliable information.**

The objective of 'grandfathering' (paragraph 4) existing national requirements is acceptable in the short-term if it is viewed as part of the process of developing a comprehensive international standard and to enable companies to claim compliance with IASB Standards. However, we agree that companies should be encouraged to adopt accounting policies that are consistent with the IASB Framework (see BC 29) where the change results in more relevant and reliable information.

c. **AMORTISATION: The G100 suggests that the Standard should provide guidance in respect of whether and when an E&E asset which has an indicator of impairment but is determined to be recoverable within the CGU - E&E asset should be transferred to the respective depletion pool for amortisation.**

As the proposed amendments to IAS 16 do not address amortisation, it is not clear whether entities are to amortise exploration and evaluation assets on a CGU or CGU - E&E asset basis, or whether entities are to amortise these assets under the requirements of IAS 16. IAS 16 refers to depreciation by single assets and has no provision for the accumulation and amortisation of costs on a cash-generating unit or any other basis. To be consistent with the concept of CGU - E&E asset, ED 130 should clarify that all exploration and evaluation assets within a CGU — E&E asset should be amortised on a unit-of-production basis as the reserves within the CGU - E&E asset are produced.

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