Date

7 May 2004

Secrétariat
Général

Fédération
des Experts
Comptables
Européens

Rue de la Loi 83
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Dear Sir David,

Re: Exposure Draft ED 6: Exploration for and Evaluation of Mineral Resources

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to submit its comments on the IASB Exposure Draft ED 6 on Exploration for and Evaluation of Mineral Resources.

FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on their preliminary comments. This response should be read in conjunction with the response submitted by EFRAG. Where we are in agreement with the EFRAG comments we refer to their comments, where we are in disagreement our own views are put forward. We also raise some additional comments.

We support EFRAG's comments on the Exposure Draft and generally support the objectives of ED 6. We would however emphasise that these limited improvements to accounting practices for exploration and evaluation expenditures will not necessarily improve comparability between entities in this industry since they would be permitted to continue with their existing accounting practices. We acknowledge the limits of the proposals in ED 6 and urge the Board to accelerate the proposed comprehensive project in order to limit the interim period.

We have the following comments on the questions raised in the draft standard.

***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 excluded 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).

We agree with EFRAG that the definition is wide and does not clearly distinguish between exploration and pre-exploration expenditures. We assume that pre-exploration activities are within the scope of the Exposure Draft, but we suggest that the IASB make a clear distinction between pre-exploration and exploration expenditures as done in the Issues Paper published by the IASC in 2000. A distinction in the definition similar to the one for 'research vs development' would facilitate uniform application.

We believe it is not clear whether paragraph 7 provides simply examples or additional guidance to the definition in Appendix A. It leaves room for interpretation and flexibility in the definition of exploration and evaluation assets. Using the verb "may" does not improve comparability if it allows entities to pick and choose what to include in their exploration and evaluation assets. Paragraph 7 should state clearly that the list of activities provides examples of expenditures that satisfy the definition.

<u>Question 2</u>: 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-BC11 of the Basis for Conclusions).

Are these proposals appropriate? If not, why not?

We agree with EFRAG and consider the proposals appropriate as long as the interim period is limited and the Board sets a target date for a future comprehensive project on exploration and evaluation of mineral resource. We are concerned by the statement in paragraph AV 4 that it is unlikely that the Board will be able to develop financial reporting standards in the near – to mid-term.

The Exposure Draft allows two different approaches for accounting for exploration and evaluation of mineral resources: to continue with the entity's current accounting policies; or not to continue with its current accounting policies and to develop a policy based on IAS 8. In our view, the current structure of the draft IFRS does not set out clearly the provisions to be applied under each of the two approaches.

Paragraph 4 seems very confusing. It states that the entity may elect to continue to recognise *and measure* exploration and evaluation assets in accordance with the accounting policies it applied in its most recent annual financial statements, except as provided in paragraph 8. Paragraphs 6-10 contain measurement requirements but it is not specified in which circumstances they apply. BC 32 states that the Board notes that an entity that elects not to continue to apply its current accounting policies should not apply paragraphs 4-10 of the draft IFRS by analogy. As a consequence, we presume that paragraphs 6-10 must be intended to be applied by an entity that elects to continue to use its existing accounting policies.

As suggested by EFRAG, the Board should explicitly state the provisions for recognition and measurement for each approach. We assume that the impairment and disclosure requirements are to be applied in both cases. We also suggest modifying the heading of paragraphs 4-5 to avoid misunderstanding.

BC 29 appears inconsistent with the underlying objective of ED 6. BC 29 states that the Board encourages those entities electing to continue to apply existing accounting policies for exploration and evaluation assets to improve their accounting policies, whereas the Exposure Draft allows them to continue to use existing accounting policies, limiting the need for entities to change their policies for exploration and evaluation assets. The Board could clarify the meaning of 'improving the accounting policies' or give guidance on judging the merit of accounting policies in this area. Since there is no consensus on the most appropriate way to account for exploration and evaluation expenditure, it may be more appropriate to permit entities to move to another method of accounting provided it is more widely accepted in the industry.

<u>Question 3</u>: 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).*

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?

We support EFRAG's concerns and do not agree with the Board's proposal. Ideally, all entities under IFRS should perform an annual impairment test in accordance with IAS 36. However, we understand the concerns of the industry. In practice, the IASB proposals will be difficult to apply due to the nature of exploration and evaluation assets. The application of IAS 36 may lead to higher incidence of impairment losses. Also, the preparation of reliable projection of future cash flows may be impracticable at the level of exploration and evaluation assets. To ensure that accounting practices are not changed unnecessarily before the planned comprehensive review, the Board should consider allowing continuation of existing practices with a minimum requirement to test for impairment at a higher level than IAS 36.
In the definition of a cash-generating unit for exploration and evaluation assets in Appendix A, the words "generates cash inflows from continuing use" should be deleted. Otherwise, it may lead companies to combine group of exploration and evaluation assets with others assets that generate cash flows which is contrary to the objective of keeping the review as specific as it was done under previous GAAP.

We consider that paragraph 12 is not consistent to IAS 36.9. Paragraph 12 requires the assessment for impairment annually, whereas IAS 36.9 requires the assessment of any indication of impairment annually. Paragraph 12 of ED 6 should be amended to read "shall assess *whether there is any indication that* those assets may be impaired annually…" to be consistent with IAS 36.

<u>Question 4</u>: 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?

We consider the proposed indicators appropriate and have not identified additional or different indicators for assessing whether assets might be impaired.

<u>Question 5</u>: 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?

We believe that the disclosures proposed in paragraph 16(b) are not clear. Income and expense arising from the exploration for and evaluation of mineral resources are not defined. What income would result from exploration and evaluation activities? Which expenses are referred to: expenditures not capitalized as assets or expenses related to the income? Why should an entity disclose cash flows arising from the exploration and evaluation only if it presents its cash flow statement using the direct method? We ask the Board for clarification on these elements.

We support EFRAG suggestion to request for additional disclosures to mitigate the negative effects resulting from the continuation of different accounting policies for entities applying IFRS and engaged in extractive and evaluation activities. The disclosure of the elements of exploration and evaluation assets as outlined in paragraph 7 of the ED could be useful information to assess the soundness of assets recognized.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

David Devlin
President