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Dear Ms Buchanan

**Exposure Draft of proposed amendments to IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 1 *First-time Adoption of International Financial Reporting Standards***

We appreciate the opportunity to respond to the International Accounting Standards Board's exposure draft of its proposed amendments to IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ('the Amendment'). This letter expresses the views of the international network of KPMG member firms.

In principle we support the IASB's objective in issuing the Amendment; however, we have identified several issues that we believe should be addressed by the Board in its finalisation.

Our main concern is that the Amendment exempts an entity applying recognition and measurement principles in the comparative period in the first year of IFRS 6 adoption, but does not provide guidance on the recognition and measurement principles that should be applied instead. To address this concern, we encourage the Board to state more clearly that early adopters should continue their current practice under previous GAAP in their comparative periods and are not required to adopt an IFRS accounting policy that is consistent with the requirements of IFRSs (presumably excluding IFRS 6) or IFRS 6 itself. If there are other alternatives that the Board intended to permit then these should be identified explicitly.

We explain this and our other significant concerns below.

## Recognition and measurement principles in comparative periods

The Amendment proposes that all early adopters of IFRS 6 will be exempt not only from disclosure requirements but also from the recognition and measurement requirements of IFRS 6 in the comparative period in the first year of IFRS adoption. However, there is no guidance on the recognition and measurement principles that should be applied instead for the comparative information or requirement for disclosure of the recognition and measurement principles used. Options entities might consider using include applying their previous GAAP; developing a new IFRS accounting policy using the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraphs 10 to 12) or applying IFRS 6 voluntarily to the comparative period.

Since IFRS 6 was intended to provide limited relief from selection of accounting policies under IFRSs, some have argued that non-application of IFRS 6 in comparative periods would require recognising all E&E expenditure as expenses, or applying IAS 38 *Intangible Assets* by analogy and expensing those costs that are analogous to research and capitalising costs analogous to development that meet the criteria in IAS 38. We believe that the IASB's implicit intention in proposing the Amendment is to be less restrictive in terms of the recognition and measurement options available for entities in presenting comparative information than would be required if IFRS 6 was adopted. This is consistent with some current practices under IFRSs, including those of some entities operating in the extractive industries that are applying the full cost method of accounting. Our concern is that the Amendment may be viewed as more restrictive in the options available for recognition and measurement in the comparative information.

In order to avoid uncertainty about what standards apply prior to adoption of IFRS 6, we believe that IFRS 1, paragraph 36B, should be expanded to:

- require entities to apply their previous GAAP in the comparative information if IFRS 6 is not applied voluntarily;
- set out specific disclosure requirements regarding the recognition and measurement principles used for the comparative information; and
- require qualitative disclosure on the nature of the main adjustments required to comply with IFRS 6.

We believe that the guidance necessary to clarify the application of the exemption is similar to that in IFRS 1, paragraph 36A, which sets out the recognition, measurement and disclosure requirements for comparative information that is not prepared in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 32 *Financial Instruments: Disclosure and Presentation* and IFRS 4 *Insurance Contracts*.

Currently we are working with clients to identify aspects of current accounting practices, including certain aggregated depreciation approaches under the full cost method, that have not been "grandfathered" by IFRS 6.

Our objective is to achieve a consistent understanding of the limits of IFRS 6, and the impact of the revisions to the scope exclusions in IAS 16 *Property, Plant and Equipment* and IAS 38. In our view, accelerating this process in advance of adoption of IFRS 6 would be counterproductive to a robust adoption of that standard.



In order to address this concern, we encourage the Board to state more clearly that early adopters are permitted to continue their current practice under previous GAAP in their comparative periods and are not required to adopt a new IFRS accounting policy that anticipates (or exceeds) the requirements of IFRS 6 itself.

We acknowledge that permitting a wide range of accounting policies for periods prior to adoption of IFRS 6 will result in accounting policies used for comparative information being inconsistent with requirements of IFRS 6 and discontinued in reporting periods beginning on or after 1 January 2006.

### **Transitional requirements**

The Amendment does not explain how a first-time adopter recognises the effect of adoption of IFRS 6 at the beginning of its first IFRS reporting period. In our view, adjustments upon adoption of IFRS 6 should be recognised in retained earnings at the beginning of the first IFRS reporting period. This view is consistent with the intention of the Amendment to delay implementation of IFRS 6 by one reporting period. We suggest that the final Amendment include transition guidance similar to that in IFRS 1.36A.

We also believe that the Basis for Conclusion to IFRS 6 should explain that this Amendment delays the adoption (and date of transition) of IFRS 6 but does not alter the requirement for retrospective application to expenditure incurred prior to the date of adoption of IFRS 6, once IFRS 6 is adopted.

### **Effective date of the Amendment**

While we believe that the Board must clarify the issues raised concerning the recognition and measurement requirements that apply in the comparative period and the transitional requirements, we are acutely aware that the Amendment must be finalised and available for early adoption as quickly as possible. This is particularly the case in the European Union, given the need for additional due process for endorsement.

We ask the IASB to finalise the Amendment, including addressing our concerns, as quickly as possible. In our view, re-exposure is not required to address the issues that we have raised.

Finally, in our view it is inappropriate for the Board to characterise the amendment to the standard as a 'clarification'. Such language creates confusion regarding the authority of both the original requirements and the amendment itself. We support the Board finalising this amendment as soon as possible to bring clear and final resolution to the issue.

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Please contact Mark Vaessen at 020 7694 8089 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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