Oil Industry Accounting Committee

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Patrina Buchanan
Project Manager
International Accounting Standards Board
30 Cannon Street
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9 June 2005

Dear Ms Buchanan

Proposed amendments to IFRS 6 and IFRS 1

The Oil Industry Accounting Committee ("OIAC") is pleased to submit its comments on the IASB's 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".

OIAC is recognised by the UK Accounting Standards Board ("ASB") for the purposes of issuing Statements of Recommended Practice ("SORPs") for the upstream oil and gas sector. Under UK accounting standards, entities with activities in the upstream oil and gas sector are required to refer specifically to OIAC's SORP, state whether their financial statements comply with it, and justify any departures from it.

OIAC supports the IASB's stated intention of providing adopters of IFRS 6 with an exemption from the recognition and measurement requirements of IFRS 6 for the comparative period. OIAC believes that the benefits of such an exemption outweigh the potential drawbacks in terms of comparability between the year of adoption and the comparative year.

OIAC also agrees that IFRS 6 and IFRS 1, as presently drafted, would benefit from further clarification. However, OIAC believes that notwithstanding the IASB's proposed amendments, there remains scope for confusion as described further below:

Absence of guidance on accounting for exploration and evaluation in the comparative period

The proposed amended IFRS 1 states that an entity need not apply the requirements of IFRS 6 to comparative information. However, there is no guidance as to the requirements that should instead be applied to exploration and evaluation costs in relation to the comparative period.

In paragraph BC2, the IASB itself highlighted the difficulties that would result from the requirement to determine an accounting policy for exploration and evaluation that complied with Paragraphs 10-12 of IAS 8, absent the guidance and exemptions of IFRS 6. The IASB's proposed amended wording appears to create precisely the same uncertainty in relation to the comparative information that IFRS 6 was created to avoid. Therefore, OIAC recommends that IFRS 1 paragraph 36B should be amended as follows:

"An entity that adopts IFRSs before 1 January 2006 and chooses to adopt IFRS 6 ... before 1 January 2006 need not apply the requirements of IFRS 6 ***paragraphs 8-12 and 15-26*** *to comparative information presented in its first financial statements"*

OIAC believes that with the amendment proposed above it would then be clear that UK entities adopting IFRS for the calendar year 2005 would be permitted, insofar as their 2004 comparative information is concerned, to measure and recognise exploration and evaluation assets (and test them for impairment) in line with their previous UK GAAP accounting policies.

Treatment of brought forward exploration and evaluation assets in the year of adoption of IFRS 6

It is assumed for the remainder of this letter that the proposed amendments achieve the IASB's stated objective, of (generally) avoiding the need to restate the comparative information in relation to exploration and evaluation assets.

However, as a further matter, it also remains unclear whether:

(i) exploration and evaluation costs included in the opening balance sheet are able to be adopted, effectively as 'deemed cost' (ie without restatement from previous GAAP) or;

(ii) exploration and evaluation assets as included in the opening balance sheet would need to be restated to conform with IFRS 6 measurement and recognition requirements, presumably by means of an adjustment to reserves effective at the beginning of the period of adoption of IFRS 6.

OIAC's interpretation is that the IASB intends that (i) should apply, since a requirement to restate historic exploration and evaluation costs in (ii) would substantially negate all practical benefit for preparers that would otherwise result from the proposed exemption.

Accordingly, it is OIAC's understanding that UK entities will be able to bring forward previously capitalised exploration and evaluation costs without restatement, but would recognise and measure exploration and evaluation costs capitalised after the date of adoption of IFRS 6 in accordance with the requirements of IFRS 6. All exploration and evaluation assets, whether capitalised prior to adoption of IFRS 6 or subsequently, would become subject to the impairment requirements of IFRS 6 from the date of its adoption.

OIAC proposes the following further clarification, to be appended to IFRS 1 paragraph 36B:

"Exploration and evaluation costs included in the comparative balance sheet in accordance with this paragraph need not be adjusted to comply with [measurement requirements of] IFRS 6"

If you have any questions concerning our comments, please do not hesitate to contact me at the telephone number or email address shown above.

Yours sincerely

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Alan Thomas

Chairman, Oil Industry Accounting Committee