23 March 2004

Mr Colin Fleming
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Mr Fleming

**RE: INTERNATIONAL ACCOUNTING STANDARDS BOARD'S (IASB) EXPOSURE DRAFT 6 *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES* (IAS ED 6)**

The Minerals Council of Australia (MCA) welcomes the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft 6 *Exploration for and Evaluation of Mineral Resources* (IAS ED 6).

The MCA is the peak, national organisation representing the exploration, mining and mineral processing sectors in Australia, as well as companies in product and service provision. MCA member companies produce up to 85 per cent of Australia's mineral output.

The MCA's mandate is to promote a business platform conducive to investment, growth and profitability for a minerals industry that is safe, globally competitive, innovative and socially and environmentally responsible. Further details on the MCA and on Australia's minerals industry, and a list of MCA members companies can be found at our web site, www.minerals.org.au.

The impact of the minerals sector on the overall Australian economy is significant. The Australian minerals industry is an industry of considerable size, economic, regional and social significance, benefiting all Australians both directly and indirectly.

In summary, the industry is:

- the pre-eminent Australian industry sector accounting for 37 per cent of our total merchandise exports and over 8.5 per cent of Australia's Gross Domestic Product
  - a significant employer:
  - directly of some 81,000 people, and
  - indirectly though vitally important supply and demand relationships with Australian manufacturing, construction, utility and service sectors (this involves over 240,000 people in allied industries, such as metal products, non-metallic mineral products, transport and logistics, process engineering and construction). Much of this employment is in remote and regional centres;
- at the forefront of new investment, the adoption of new technology and Research, Development and Demonstration (RD&D) activity in Australia.

The MCA's major focus in considering IAS ED 6 is the need for additional clarification in the application of the proposed accounting, particularly the issue of impairment, with respect to companies for which a substantial portion of their resources are devoted to exploration and evaluation activities.

The MCA understands the IAS ED was developed by the IASB as an interim measure prior to the development of a complete International Financial Reporting Standard (IFRS) for the extractive industries. This IFRS is not expected to be developed prior to the deadline for Australian companies to comply with International Accounting Standards. Accordingly, it would appear from paragraphs IN1 to IN7 of IAS ED 6 that the intention of IAS ED 6 was to allow entities incurring exploration and evaluation expenditure to continue their existing accounting policies, with some safeguards, until the accounting issues associated with extractive industries could be considered more completely, that is, there is to be a form of “grandfathering” allowed. This is expected to be the case until such time as the IASB develops a comprehensive IFRS on extractive industries.

The MCA is in agreement with the concept of grandfathering as it applies in the IAS ED as this allows companies to continue with their existing accounting policies until a more considered view has been determined by the IASB.

However, our interpretation of the requirement to conduct impairment testing on exploration and evaluation assets on transition to IFRS, in accordance with the draft IAS 36 *Impairment of Assets* (IAS 36 impairment assessment being triggered on entry into IRFS, not because there has been a “triggering event”) will effectively result in a very limited number of companies undertaking exploration and evaluation being able to continue with their current accounting treatment. The inclusion in paragraph 14 of IAS ED 6 of an alternative “cash-generating unit for exploration and evaluation assets” is also unlikely to result in any different outcome for smaller exploration companies than the “cash-generating unit” basis as currently contained in the draft IAS 36. This alternative is more likely to be a viable option to those larger minerals companies that may be able to incorporate exploration and evaluation expenditures into an existing segment.

It is logical that the existing accounting treatment be retained until the comprehensive extractive industries project is completed as to do otherwise could result in two significant, and administratively costly, changes in accounting policy for these entities (one change pursuant to IAS ED 6/IAS 36 and one change on the completion of the extractive industries project) rather than one or even none depending on the final outcome of the project. This is contrary to the objective expressed in paragraph 1(a).

In addition, the impairment trigger “*the entity does not expect the recognised exploration and evaluation assets to be reasonably capable of being recoverable from a successful development of the specific area, or by its sale*” contained in paragraph 13(f) will effectively bring forward impairment testing, and generally trigger an impairment loss pursuant to IAS 36, in situations where the exploration and evaluation work has not been sufficiently progressed to determine that successful development will occur. This impairment trigger acts as a “catch all” and is effectively a much more stringent test than the impairment triggers in the draft IAS 36.

Accordingly, the MCA recommends this “catch-all” trigger be removed. Rather than having to meet the positive test set out in paragraph 13(f) the paragraph should be rewritten to refer to a negative test. For example, rather than reading:

> *“the entity does not expect the recognised exploration and evaluation assets to be reasonably capable of being recoverable…”*
>
> it be changed to read
>
> *“based on the information available at balance date, the entity does not have any reason to expect that the recognised exploration expenditure is not capable of being recoverable…”*

This will then allow the practical circumstances to arise, which is consistent with current practice, that if the period for which the entity has the right to explore continues, there are planned exploration and/or evaluation activities in the foreseeable future and no decision has been made to abandon or dispose of the project it can be carried forward as no impairment trigger has arisen.

The impacts of the requirement in the current paragraph 13(f) could be particularly adverse for smaller minerals exploration companies. The impacts of this IAS ED on smaller minerals exploration companies in Australia has been set out in more detail in submissions by the Australian Gold Council and the Chamber of Minerals and Energy of Western Australia and the MCA supports the recommendations set out in these submissions.

The MCA would be pleased to meet with the Board or its Secretariat to discuss any aspect of this submission.

Yours sincerely

**MITCHELL H. HOOKE**
**CHIEF EXECUTIVE**

Copy to: Mr David Boymal, Chairman, Australian Accounting Standards Board