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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, April 15, 2004
540/520

Dear Sir David

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

We appreciate the opportunity to comment on the Exposure Draft mentioned above and would like to submit our comments as follows:

Acknowledging the fact that it is not feasible to complete a comprehensive project on the accounting and financial reporting issues for the extractive industries in time for the many entities that will adopt IFRSs in 2005, we support the Board's intention to provide a minimum of temporary guidance on the treatment of exploration and evaluation expenditures that will enhance comparability while avoiding unnecessary major changes that may need to be reversed when the Board undertakes the comprehensive review. Nevertheless, we urge the Board to develop a high quality financial reporting standard in the future in order to avoid accounting differences and inappropriate accounting treatments in this area which may well have to remain in place for some years. In this context it has to be mentioned in particular that the Exposure Draft grants the opportunity to recognise expenses as assets which do not meet the definition of assets. This could impair the fair presentation as well as the comparability of financial statements under IFRS. Moreover, if an entity recognises expenses in the exploration and evaluation phase as assets not meeting the asset definition, this will – provided that there is no compensation within a cash-generating unit – lead to an impairment of those "assets" in the development phase. Therefore the Board should clearly state that the Exposure Draft is only an interim Standard

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and commit itself to replacing this Standard with a permanent Standard up to a certain date.

In general, the Exposure Draft allows two different approaches with respect to exploration for and evaluation of mineral resources: Either an entity develops an accounting policy based on IAS 8, paragraphs 10-12, or it continues the use of accounting policies applied in its most recent annual financial statements. In our view, it is not clear which particular provision or paragraph of the Exposure Draft has to be applied under the two approaches:

Paragraph 4 states that an 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*. We believe that the reference to paragraph 8 is not sufficient. Instead, according to our understanding reference should be made to paragraphs 6-10 in this case: BC32 states that the Board noted that an entity that elects not to continue to apply the accounting policies applied in its most recent annual financial statements for the exploration for and evaluation of mineral resources (i.e. an entity that is required to apply the criteria in paragraphs 10-12 of IAS 8) should not apply paragraphs 4-10 of the draft IFRS by analogy. As a consequence, paragraphs 4-10 of the draft IFRS must be intended to be applied by entities that elect to use the accounting policies applied for their most recent annual financial statements.

Furthermore, we suggest that the Board explicitly set out that the provisions regarding impairment (except for the definition of the relevant cash-generating unit) and disclosure are mandatory for both these approaches mentioned above.

In order to avoid misunderstandings, section headings and paragraph titles should be aligned with the content of the related paragraphs. For example, under the heading of “RECOGNITION OF EXPLORATION AND EVALUATION ASSETS” paragraphs 4 and 5 deal with recognition and measurement. In our view, an appropriate heading in this case would be “ACCOUNTING POLICIES CONCERNING EXPLORATION AND EVALUATION ASSETS”.

The Exposure Draft focuses on different aspects of recognition, measurement and disclosure. Additionally, the Basis for Conclusion (BC31) points out that entities may continue to classify exploration and evaluation assets in accordance with the accounting policies applied in their most recent annual financial statements (either as tangible or intangible). We would appreciate this statement being incorporated into the main body of the Standard. In this context, we would like to point out that the examples of elements of exploration and evaluation assets in paragraph 7 should all be classified as intangible assets, notwithstanding the deliberations set out in BC30/31.

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Furthermore, the Board should clarify in paragraph 12 whether an entity shall only assess at each balance sheet date if there is any indication that an asset may be impaired (ED IAS 36.8) or if an entity shall estimate at the end of each annual reporting period the recoverable amount of an exploration and evaluation asset irrespective of whether there is any indication of an impairment (ED IAS 36.8A).

Finally, we would like to recommend further disclosure requirements, bearing in mind that exploration and evaluation expenditures represent a significant cost to entities engaged in extractive activities. Additional disclosures could mitigate the negative effects resulting from the continuation of different accounting policies as well as the risk that this interim accounting standard may remain valid for a quite long period of time. We would especially appreciate disclosure of the elements of exploration and evaluation assets as outlined in paragraph 7 of the Exposure Draft (e.g. acquired rights to explore and exploratory drilling). Such information would enable the user of financial statements to assess the possibility of inappropriate recognition of assets during the interim period due to the neglection of the IASB Framework with regard to the definition of assets (see AV2).

Yours sincerely

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