SIBELCO

Mr. Colin Fleming
International Accounting Standards Board
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Letter sent by fax (+ 44 20 7246 6411) and by e-mail (CommentLetters@iasb.org)

Dear Mr. Fleming,

**Comments on ED6, Exploration for and evaluation of mineral resources**

We welcome this opportunity to comment on the IASB's Exposure Draft on Exploration for and Evaluation of Mineral Resources.

*The Sibelco Group is a leading international producer of a broad range of industrial minerals. The core business of the Sibelco group centres on industrial mineral products which can be classified into three main sectors :*

- *sand & silica, and related products such as micronised silica flour, pure quartz, cristobalite and filter sands*
- *clay, including plastic clays, kaolins, red clays and ceramic bodies*
- *other minerals, such as nepheline syenite, feldspar, olivine, bentonite, calcium carbonate, dolomite, wollastonite, abrasives and gravels*

*At the end of 2003, the group extracted and processed industrial minerals at over 225 sites in 32 countries around the world.*

The appendix attached to this letter provide responses to the questions set out by the IASB in its invitation to comment.

Please contact us if you would like to discuss further any items in this letter.

Yours Sincerely,

S.C.R.-Sibelco S.A.

L.Van Ostaeyen
CFO

Enc.

## 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 included 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).*

### Comment

The Issues Paper Extractive Industries (November 2000) included within preproduction costs a distinction between pre-acquisition expenses and post-acquisition expenses. Under the current exposure draft it is not clear if the pre-acquisition expenses are included in the proposed definition of exploration and evaluation assets. If pre-acquisition expenses are included in the proposed definition, we are of the opinion that conditions should be incorporated to determine if these expenses can be capitalized. These conditions could be similar to the conditions of IAS 11 § 21 in relation to costs incurred to secure the contract (the successful efforts method as referred to in the Issues Paper Extractive Industries of November 2000).

Moreover, we are of the opinion that the wording of paragraph 7 is too liberal ("Expenditures related to the following activities *may* be included in the initial measurement of exploration and evaluation assets"). This leaves a possibility for the entities applying this standard to pick and choose and will, in our opinion, not contribute to the quality of information presented in the financial statements nor to the comparability of financial statements within the extractive industries line of business.

Finally, we are of the opinion that the Board should decide on the classification of exploration and evaluation assets as tangible or intangible assets.

## Question 2 – 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?*

**Comment**

As per the introduction to ED 6 "the Board wishes to provide guidance on the treatment of exploration and evaluation expenditures that will enhance comparability between entities".
Allowing entities to continue to use their existing accounting policies in line of business where the Board says in the introduction to ED 6 "that accounting practices for such activities are diverse and differ not only between sectors of the extractive industries but also from the requirements in IFRSs for activities that may be thought to be similar and related" will not contribute to comparability between entities.

We consider exempting an entity from considering the sources in paragraphs 11 and 12 when assessing its existing accounting policies for exploration and evaluation expenditures is not appropriate. We are of the opinion that at least the sources indicated in paragraph 11 b) *(" the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework)* should be retained in the assessment of the existing accounting policies for exploration and evaluation expenditures.

Whereas the improvements project focused i.a. on the abolition of options (allowed alternatives) in the existing standards, this exposure draft opens the door for a bunch of different accounting treatments of similar and related activities.

**Question 3 – 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?*

**Comment**

We do not see the use of creating cash-generating units for exploration and evaluation assets. We consider that exploration and evaluation assets would automatically be allocated to a cash-generating unit as defined by IAS 36.

**Question 4 – 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?*

**Comment**

We consider the proposed indicators of impairment appropriate.

We are of the opinion that paragraph 12 should be rephrased as follows:
"Except as provided in paragraph 14, an entity that has recognized exploration and evaluation assets shall assess those assets for **indicators of** impairment annually and recognise any resulting impairment loss in accordance with [draft] IAS 36."

It is however not clear from reading the exposure draft to which entities paragraphs 12 to 14 on Impairment apply. Is an entity, which opts for the exemption of paragraph 4 also exempt of applying paragraphs 12 to 14 (in other words is impairment considered to be part of measurement as in other standards) or do paragraphs 12 to 14 apply to all entities involved in extractive industries?

**Question 5 – 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?*

**Comment**

Paragraph 16 b): we consider that additional guidance is required on "income and expense arising from the evaluation of mineral resources". We consider appropriate to disclose as expense exploration and evaluation expenditures, which were not capitalized (in line with the disclosure on research and development expenses as required by IAS 38). We do not see what could be disclosed as income in this context.

We consider the disclosure required in paragraph 16c not relevant in view of our answer on question 3 above.