FAR

FAR is the institute for the accountancy profession in Sweden

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CL 35

ED 6 Exploration for and Evaluation of Mineral Resources

FAR, the institute for the accountancy profession in Sweden, is responding to your invitation to comment on the Exposure Draft *ED 6 Exploration for and Evaluation of Mineral Resources*.

General comments

The draft IFRS relates to the exploration and evaluation of mineral resources, providing guidance on the recognition, measurement and impairment of such items. One implication of the draft is that capitalization of expenses are recorded at an earlier stage than the corresponding expenses are capitalized in other industries with exploration and development costs. We would suggest a clarification of the background for having special accounting rules for this industry.

The draft IFRS proposes that an entity may continue to use the accounting policies applied in its most recent annual financial statements for exploration and evaluation assets regarding recognition of exploration and evaluation assets. This includes the continuation of practices in respect of recognition and measurement when incorporated within such accounting policies. We feel that this would permit the continuation of a variety of measurement bases some of which may contradict the IASB Framework, which does not enhance comparability between financial statements.

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).

Response

Paragraph 7 of the draft IFRS comprises the types of expenditures that may be included in the initial measurement of exploration and evaluation assets. We believe that the Board should provide additional guidance and clarification of the word “may”, as the interpretation of this word is not clear.

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In paragraph 8 of the draft IFRS an exclusion of administration and other general overhead costs are proposed. We believe the Board should provide additional guidance and clarification as to whether this exclusion refers to all administration and other general overhead costs, or if administration and other general overhead costs that are directly attributable to the exploration for and evaluation of mineral resources can still be included in the initial measurement of exploration and evaluation 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?

Response

As we understand the draft IFRS and the BC, the draft IFRS proposes that an entity may continue to use the accounting policies applied in its most recent annual financial statements for exploration and evaluation assets regarding recognition of exploration and evaluation assets. This includes the continuation of practices in respect of recognition and measurement when incorporated within such accounting polices.

We believe that this would permit the continuation of a variety of measurement bases, some of which may contradict the IASB Framework, which does not enhance comparability between financial statements.

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?

Response
The draft IFRS permits an entity that has recognised exploration and evaluation assets to test these assets for impairment on the basis of a "cash-generating unit for exploration and evaluation assets" rather than the cash-generating unit that would be required under IAS 36. The cash-generating unit for exploration and evaluation assets is defined as being "the smallest identifiable group of assets that, together with exploration and evaluation assets, generates cash inflows from continuing use on which impairment tests were performed by an entity under the accounting policies applied in its most recent annual financial statements. A cash-generating unit for exploration and evaluation assets shall be no larger than a segment."

It is not clear why the (draft) IFRS allows continuation of the recognition and measurement rules, but does not do so for impairment. We believe that an explanation is needed.

Question 4 - Identifying exploration and evaluation assets that may be impaired
The IFRS draft 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?

Response
We believe that the proposed indicators of impairment are appropriate and we are not aware of additional indicators that should be used.

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?

Response
We consider the disclosure requirements in the draft IFRS rather minimal. We believe that all relevant disclosures as required by IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (e.g. a reconciliation of the carrying amount at the beginning and end of the period) should still be required.

Other comments – classification of exploration and evaluation assets

As we understand the draft IFRS and the BC, the draft IFRS proposes no classification of the exploration and evaluation assets in the Balance Sheet.

In order to enhance comparability between financial statements, we encourage the Board to provide guidance on the classification in the Balance Sheet.

Yours faithfully,

Jan Buisman
Chairman, Accounting Practices Committee

Dan Brännström
Secretary General