one hundred

CL 34

Colin Fleming
International Accounting Standards Board
33 Cannon Street
London EC4M 6XH

16 April 2004

Dear Colin

ED6 Exploration for and evaluation of mineral resources

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft (ED). ED6 was considered at a recent meeting of ACCA's Financial Reporting Committee and I am writing to give you their views. These are set out as responses to the questions raised by IASB for comment.

We are content with the general thrust of the standard, but we note its temporary nature, especially its blanket provisions to allow the continuation of existing practice. This standard will not ensure comparability and high-quality financial reporting on this basis. It is important that IASB now move fairly swiftly to replace this temporary standard with something more comprehensive.

We support as a general principle that, in the absence of such a comprehensive international standard, companies should be able to continue to follow existing accounting guidance, such as US standards or the UK Statement of Recommended Practice.

The exposure draft would have benefited from a fuller explanation of the background to the need for the standard, including some

ACCA
29 Lincoln's Inn Fields London WC2A 3EE United Kingdom
tel: +44 (0)20 7396 7000 fax: +44 (0)20 7396 7070 www.accaglobal.com

The Association of Chartered Certified Accountants

indication of the range of existing practices that would continue to be allowed together with more specification of the problems that would arise if this standard were not to be in place (a course advocated by four board members).

Q1. Definition and additional guidance

We consider the definition of exploration and evaluation costs to be satisfactory, when taken with the additional guidance on what would be excluded from this and what included.

Q2. Method of accounting for exploration and evaluation of mineral resources

The ED is unclear as it stands. Paragraph 4 allows existing policies on the recognition and measurement of these assets to continue, whatever they are and without apparent restriction. Paragraphs 6 to 12 however set out some requirements with regard to measurement. It is not clear whether these are two sets of rules are intended to be alternatives or whether paragraphs 6 to 10 and 12 are restrictions on any policies allowed under paragraph 4. (Paragraph 11's relationship to paragraph 4 is clear).

Paragraph 10 of the ED would allow revaluation and refers to IAS16 and to IAS38. The revaluation models in these two standards are not identical – for example IAS38 requires revaluations to be based on active markets. ED6 should be clarified as to which is meant to apply in this case.

IASB should put in place some restraints on entities switching accounting policies, beyond the requirements of paragraph 11. For example while in effect allowing both the successful efforts and full cost methods of capitalisation to continue, companies should be prevented from switching to the full cost method.

On the other hand merely to allow existing policies to continue does not adequately deal with cases where, following an acquisition, policies are changed to comply with group accounting policies for consolidation purposes.

Q3. Cash generating units for exploration and evaluation assets

While a different basis for impairment testing for these assets seems hard to justify in principle, we accept the ED's proposals as an interim pragmatic measure ahead of a more comprehensive standard on the accounting for exploration and evaluation costs. We note that otherwise many exploration costs carried forward under currently acceptable accounting practices would have to be impaired.

We note that the definition of cash generating units for exploration and evaluation assets places a segment as the maximum size of such a unit. This should be clarified as whether this means a segment based on either an entity's primary or secondary analysis.

Q4. Identifying exploration and evaluation assets that may be impaired

We consider the proposed indicators in paragraph 13 as reasonable.

Paragraph 12's wording should be made clearer by referring to assessing annually for indications of possible impairment and only then measuring any impairment indicated.

Q5. Disclosures

The proposed disclosures in paragraph 16 (a) and (c) seem appropriate. We are, however, not clear on what exactly is required by (b). For instance are simply the cumulative amounts of exploration assets to be shown, or is some analysis of the build up of those amounts - costs incurred, amounts transferred to production assets, impairments, revaluations etc.- to be shown? We are not sure how material any income arising from exploration and evaluation is likely to be.

If there are any matters arising above where further information would be helpful, please be in touch with me.

Yours sincerely

Richard Martin
Head of Financial Reporting