Institute of
CHARTERED ACCOUNTANTS
of New Zealand

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Dear Colin

IASB ED ***6 Exploration for and Evaluation of Mineral Resources***

The Financial Reporting Standards Board (FRSB) is pleased to make the following submission on IASB's ED 6.

General Comment

All FRSB members were unanimous in desiring consistency in financial reporting in the extractive industry in the longer term. However, there were mixed views among FRSB members on the merits of the IASB issuing a standard based on ED 6. The FRSB strongly recommends that the IASB considers including in its agenda a project on the fundamental review of accounting in the extractive industry as soon as possible.

All FRSB members were concerned to note that the IASBs timetable indicates that the project on extractive industries phase 2 is not due for consideration as a Discussion Paper until 2005. No timing has been set for the ED or IFRS. The FRSB considers that this is an unacceptable length of time for an interim standard to he in place that could be endorsing inappropriate accounting policies and practices

Comments in favour of ED 6

Those FRSB members in favour of the IASB issuing such a standard (the majority of FRSB members) considered that this was not a major issue in New Zealand and no major concerns have been raised by constituents in the industry. In addition, the FRSB members were mindful that this was a short-term, interim measure. They were agreeable to such a standard being issued provided the IASB considers a project on extractive industries and issues a comprehensive standard within the next two years.

Comments not in favour of ED 6

Those FRSB members who were not in favour of the IASB issuing a standard based on ED 6 did not agree with the proposal to permit entities to continue with the accounting policies applied in its most recent annual financial statements for exploration and evaluation expenditures, including the recognition and measurement of exploration and evaluation assets. Those FRSB members considered that to ensure that appropriate accounting policies are adopted for entities in the extractive industry, all affected entities should be required to consider the IASB Framework and other authoritative guidance when developing their accounting policies for the treatment of exploration and evaluation expenditures and assets.

The FRSB members consider that the accounting treatment for exploration and evaluation expenditure and assets currently vary widely across countries and industry participants. The members acknowledge that, as a short-term measure, in jurisdictions with existing standards in the area, there may be some justification for permitting entities to continue to account for exploration and evaluation expenditures and assets in accordance with the accounting policies applied in their most recent annual financial statements In such cases, whether the methods prescribed are consistent with the IASB Framework or appropriate, the standards may mandate particular methods or narrow the range of methods available to entities. Allowing entities to use the same accounting policies may result in comparability for those entities in the short-term.

However, for jurisdictions with no existing standards, for instance New Zealand, and where entities apply a variety of recognition and measurement principles to exploration and evaluation expenditure, the proposed standard will result in the endorsement of different accounting policies and practices and in non-comparable information More importantly[1] it will result in the endorsement of inappropriate accounting policies where such policies have been used. The members of FRSB consider this to be unacceptable as it reduces the reliability of financial reports and the quality of financial information for users.

The proposed standard will also result not only in inconsistent and non-comparable information between existing entities but also between existing entities and new entrants to the industry or those entities changing accounting policies. Under ED 6, the latter two categories of entities are required to use the IAS 8 hierarchy.

The members of the FRSB who disagreed with ED 6 consider that the proposed standard is contrary to the IASB's objective for a set of high quality international standards. It seems contrary to allow entities that depart from the IASB Framework to claim compliance with IFRS. To this extent, those FRSB members prefer that the IASB not issue a standard in this area if the outcome is to continue to allow a variety of practices and endorse inconsistent or incorrect accounting practices. The FRSB members do not consider that the proposed standard will improve accounting practices or reporting in individual jurisdictions.

Instead, those FRSB members consider that all entities should be required to apply the hierarchy in paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* In the absence of specific IFRS guidance, these paragraphs require the consideration of:

(1) the requirements of and guidance in Standards and Interpretations dealing with similar and related issues; and

(ii) the definition, recognition criteria and measurement concepts for assets, liabilities, incomes and expenses in the Framework.

Responses to IASB's Specific Questions

Notwithstanding the above, the FRSB's responses to the IASB's specific questions follow.

IASB 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).*

We believe that the proposed definitions and additional guidance are sufficient to identify exploration and evaluation activities.

IASB 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 anti 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?

See our comments for and against ED 6 above.

IASB 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 so assess the recoverability of the carrying amount of exploration and evaluation assets?*

We agree that exploration and evaluation assets should be subject to an impairment test under IAS 36 Impairment of Assets. We also agree with the concept of a definition of cash generating units for exploration and evaluation assets.

However, we consider that the proposed standard, if issued should contain some guidance and detailed illustrative examples to assist in applying the impairment test, in the identifying the cash-generating unit for exploration and evaluation assets and to ensure as much consistency of interpretation as possible

IASB 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 he 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?

We agree with the indicators of impairment proposed in ED 6.

IASB 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?

We agree with the disclosures proposed in ED 6.

Yours sincerely

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Joanna Perry
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