Exposure Draft

ED 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

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 the proposed IFRS shall be completed in order to define the criteria that should be adopted to determine the costs included in the measurement of evaluation and exploration assets; a definition of these costs shall be given and the examples indicated shall represent only a support to the definition.

With reference to the examples provided by the ED 6 (see paragraph 7), some costs (e.g. geological and geophysical costs) are generally expensed when incurred (e.g. in the successful effort method).

Similar considerations may be referred also to the development expenditures not included, for the purpose of the ED 6, in the measurement of evaluation and exploration assets.

The Board shall define the concept of development expenditures/assets and the criteria for their determination, considering also some technical organization (e.g. Society of Petroleum Engineers) and other reliable sources (e.g. Securities and Exchange Commission).

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?

We agree with the proposed IFRS.

However, we believe the proposed IFRS shall permit an entity to continue the accounting policies applied in its most recent annual financial statements even if the costs of exploration and evaluation are expensed (see IN5 of ED 6).

The proposed IFRS shall indicate that *"exploration and evaluation assets shall be measured at cost"* if, and only if, the entity hasn't applied the exemption permitted in the proposal; as a matter of fact, if paragraph 6 applied unreservedly, the exemption wouldn't produce any advantage for entities using different criteria for exploration and evaluation assets.[1]

Question 3 – Cash-generating units for exploration and evaluation assets

[Draft] IAS 36 (in Exposure Draft of *Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets* (December 2002) 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

[1] This is probably a purely theoretical event.

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?

We believe the proposal is not clear.

The proposed IFRS shall detail the differences between *cash generating unit*, defined by IAS 36, and *cash-generating unit for exploration and evaluation assets*; it shall also indicate the criteria to determine the assets to be included in the *cash-generating unit for exploration and evaluation assets* and the cash flows for the recognition of impairment losses.

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?

We agree with ED 6.

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 proposal to increase the disclosure requirements about exploration and evaluation expenditures/assets.

However, considering the importance and the wide adoption of US Gaap in the extractive industries, also by foreigners or by companies not listed at a US market, it is advisable for the Board's indications to be in compliance with US Gaap.