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We appreciate the opportunity to respond to IASB´s ED 6 *Exploration for and Evaluation of Mineral Resources*. The comments in this letter represents the views of the Swedish Financial Accounting Standards Council (SFASC).

General comments

ED 6 represents a first step towards finding the appropriate accounting policies for Extractive Industries and should be welcomed as such. The characteristics of the Extractive Industries have so far motivated the exclusion of these industries from the scope of IAS 16 and IAS 38. Therefore there is a need of guidance in a standard as to which accounting policies these industries should apply from 2005 when many entities are required to adopt IFRSs. It will be especially important to give entities that today apply national accounting policies the possibility to be included in the IAS/IFRS-world without being forced to make substantial changes in existing accounting policies which might have to be reversed when final accounting principles for Extractive Industries are determined by IASB. If the selection of accounting principles to be used for this interim period is based on IAS 8 this could cause large and maybe unnecessary impairment losses.

Before it has been clarified whether the characteristics of the Extractive Industries motivate deviations from existing IAS/IFRS we agree that an interim measure, where the Board makes some limited improvements to accounting practices for exploration and evaluation expenditures, is an appropriate way forward considering the short time the Board has at its disposal before January 1, 2005. The improvements must be limited in order to avoid major changes now that later might have to be reversed, when the important matter of the special characteristics of the Extractive Industries, if any, has been made clear and it will be possible to decide on whether a special standard should be introduced or whether it would be more appropriate to make adjustments in the scope of existing standards. We believe that the Board should strictly limit the number of businesses given special accounting treatments and undertake a thorough analysis of whether the characteristics of the Extractive Industries distinguish them from other industries to the extent that special accounting principles are motivated.

In these circumstances we do believe that it is appropriate, like in the Insurance project, to divide this project into two phases. However the draft IFRS exempts an entity from considering the sources in IAS 8 p. 11 and 12 when assessing its existing accounting policies for exploration and evaluation assets and allows entities to continue to account for them using diverse existing accounting policies. This will not enhance comparability between entities and therefore we believe that it is important that the Board at this stage indicates when the next phase, i.e. the comprehensive Extractive Industries-project, should be completed.

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).

Comments to Question 1

We believe that the definitions are appropriate on the whole, but that a clarification as to whether paragraph 7 is meant to be exhaustive or not should be considered by the Board. Furthermore the definition of a cash-generating unit for exploration and evaluation assets in Appendix A ought to be clarified as to what is meant by the reference to a "segment". Does it only refer to the primary or does it also refer to the secondary segment (see IAS 14 p. 26)?

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?

Comments to Question 2

Yes, the proposals are appropriate for the interim period.

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?

Comments to Question 3

Yes, the proposals are appropriate for the interim period.

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?

Comments to Question 4

Yes, the indicators of impairment for exploration and evaluation assets are appropriate as a complement to the sources specified in IAS 36.

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?

Comments to Question 5

We believe that the proposed disclosures are appropriate but should be supplemented with relevant disclosures required by IAS 16 and IAS 38.

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The Swedish Financial Accounting Standards Council

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