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NEW ZEALAND TREASURY SUBMISSION ON IASB EXPOSURE DRAFT 6: EXPLORATION FOR AND EVALUATION OF MINERIAL RESOURCES

Please find attached the New Zealand Treasury's submission for consideration in relation to Exposure Draft 6: Exploration for and Evaluation of Mineral Resources (ED 6).

In summary, we do not support ED 6 in its current form. We acknowledge that our comments are from the perspective of an interested party, rather than that of an organisation in the extractive industry.

We do not agree with permitting entities the alternative of continuing their existing accounting treatment of exploration and evaluation assets. To ensure the appropriate recognition of assets, we recommend that ED 6 require all entities to consider the accounting framework and other authoritative guidance when developing their accounting policies for the treatment of exploration and evaluation expenditures.

Our detailed comments are documented below for your consideration.

Ken Warren (ken.warren@treasury.govt.nz) and Steve Leith (steve.leith@treasury.govt.nz) are happy to discuss our comments further if required.

Yours sincerely

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IASB SPECIFIC QUESTIONS

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).

Are the definition and additional guidance sufficient to identify exploration for and evaluation activities that are subject to the proposed amendments? If not, how would you change them and why?

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 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 do not agree with permitting entities the alternative of continuing their existing accounting treatment of exploration and evaluation assets.

In the instance where no specific IFRS exists, as is the case with the recognition of exploration and evaluation assets, all entities should be required to consider the accounting framework and other authoritative guidance so as to avoid the inappropriate recognition of assets.

In the current environment, where a variety of recognition and measurement principles are applied to exploration and evaluation expenditure, it is increasingly likely that some costs will be inappropriately capitalised leading to a reduction in the reliability of financial reports for users.

Of particular relevance to this issue is IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in particular paragraphs 11 and 12. When an entity is developing accounting policy in the absence of specific IFRS guidance these paragraphs require the consideration of:

(i) the requirements of and guidance in Standards and interpretations dealing with similar and related issues; and

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

We recommend that ED 6 be amended to direct entities to apply these requirements when developing policies for the treatment of exploration and evaluation expenditure so as to reduce the chance of inappropriately recognised exploration and evaluation assets.

We acknowledge that there is justification for permitting entities to continue to account for exploration and evaluation assets in accordance with the accounting policies applied in their most recent annual financial statements. In particular, on the grounds of comparability and also on the basis that the application of analogous standards may result in exploration and evaluation assets being expenses inappropriately. For example, if entities apply the stringent 'research and development' recognition principles promoted by IAS 38 (where development assets are only recognised in limited circumstances) it is possible that exploration and evaluation assets may be expensed inappropriately.

However, we do not think that these arguments outweigh those already laid out 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 to 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.

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 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 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.