**Comments of the Accounting Standards Board of the Institute of Chartered Accountants of India on Exposure Draft (ED 6), Exploration for and Evaluation of Mineral Resources issued by International Accounting Standards Board (IASB)**

While we support the objective of the proposed IFRS, we believe that there is a strong need for IASB to issue detailed authoritative guidance on accounting and financial reporting issues for the extractive industries. This becomes extremely important considering the fact that much of existing practices in the extractive industries may not be in accordance with the IASB Framework and there are divergent accounting practices which are followed in the industry. A high quality IFRS will bring about consistency and transparency in financial statements of oil and gas enterprises and also lead to better comparability of the financial statements.

We give below our comments on the specific questions set out in the invitation to comment.

**Question 1 - Definition and additional guidance**

We generally agree with the definitions of various terms included in the exposure draft. With regard to additional guidance provided in paragraph 7 of the exposure draft, it is suggested that the same may be omitted since some of the elements of exploration and evaluation assets, e.g., (b) topographical, geological, geochemical and geophysical studies, are generally not included in cost in case an enterprise follows successful costing method. Further, since the exposure draft permits an enterprise to continue to recognize and measure exploration and evaluation assets in accordance with the accounting policies applied in its most recently annual financial statements, the elements specified in paragraph 7 lose their intended purpose of providing standardization since the entity will include expenditure related to the activities in accordance with the accounting policies followed by it in this regard.

Our comments on the cash generating unit for impairment are set out below in our response to Question 3.

**Question 2 - Method of accounting for exploration and evaluation of mineral resources**

We do agree with the proposal of the IASB allowing entities to use its existing accounting policies and exemption from the Framework. However, we are not very clear how this has to be applied in case of companies which commence exploration and evaluation activities subsequent to this IFRS and do not have any existing accounting policies for exploration activities. It appears that such companies would need to form their accounting policies in accordance with Paragraphs 10-12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". This will not achieve consistency and comparability of financial statements of various enterprises. Similarly, a new company would not be able to apply the definition of Cash Generating Unit for Exploration and Evaluation Assets for carrying out impairment test as it again refers to the impairment test performed in the company's recent financial statements.

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

In principle, we agree with IASB that there is a need for separate guidance on impairment for exploration and evaluation assets. However, we do envisage problems in implementing the definition of Cash Generating Unit for Exploration and Evaluation Assets as suggested in the Exposure Draft which are mentioned below:

a) The exposure draft provides that exploration and evaluation assets may be aggregated with other group of assets to form a cash generating unit for exploration and evaluation assets and be tested for impairment. We believe that these provisions may bring inconsistency in accounting treatment between a start up company and a mature company with various producing properties. The start up company may be engaged only in exploration and evaluation activities and may not have any producing property. In such a case, the cash generating unit for exploration and evaluation assets for the start up company would only comprise exploration and evaluation assets. Considering the difficulties involved in estimating future cash flows associated with exploration and evaluation assets, those assets of such a company are likely to be fully impaired. However, on the other hand a mature company which has producing assets can aggregate its exploration and evaluation assets with its producing assets and hence may not be required to impair its exploration and evaluation assets. This does not seem to be the intention of the IASB.

b) The definition of cash generating unit for exploration and evaluation assets provides that it can not be larger than a segment. We believe that establishing a linkage between a segment and a CGU may not achieve consistency in accounting treatment as the impairment test would become dependent on the way the company determines its reportable segments. A company whose primary reporting segment is a geographic segment, say a country, may have a single property in that segment which may be under exploratory stage. In such a case, the Company would not be able to aggregate its exploration and evaluation assets with other assets to form a cash generating unit for exploration and evaluation assets. This may result in the exploration and evaluation assets of that segment being fully impaired. On the other hand, a company whose reportable geographic segments are determined in such way that exploration and evaluation assets may be aggregated with other assets to form CGU may not be required to recognize impairment. This brings about inconsistency in accounting treatment across different companies.

c) We also refer to Financial Accounting Standard (FAS) 144, "Accounting for the Impairment or Disposal of Long Term Assets", issued by Financial Accounting Standards Board, USA, which exempts unproved properties from the conventional impairment test. Similarly, Financial Reporting Standard (FRS) 11, "Impairment of Fixed Assets and Goodwill", issued by the Accounting Standards Board, UK, also exempts costs captialised pending determination (unproved property) from the impairment test. The general practice in the industry is also not to test unproved properties for impairment by measuring future cash flows. FAS 19 "Financial

Accounting and Reporting by Oil and Gas Producing Companies", and SORP "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", provide the indicators when unproved properties should be assessed for impairment or the timelines beyond which the costs may not be carried forward. Accordingly, we believe that instead of exploration and evaluation assets being subject to impairment test as per IAS 36, IASB should exempt unproved property costs from the provisions of IAS 36 till the Board issues a comprehensive authoritative guidance on extractive industries.

d) We also believe that the proposed IFRS should give guidance on formation of cash generating units (CGU) for producing properties for companies using full cost method. Under full cost method, cost centers for accumulating costs are generally not smaller than a country. Typically, the impairment test, more commonly known as the ceiling test, is applied to the entire cost pool considering the same as cash generating unit (CGU). Treating the entire cost pool as CGU may not be in accordance with the definition of CGU under IAS 36. This may result in difficulties for companies using full cost method to apply the impairment test as per IAS 36 as the Companies may not be able work out the carrying costs of cash generating units formed as per IAS 36 within a cost pool as depletion is calculated on the entire cost pool by unit of production method. Also, breaking the cost pool into various CGUs may be against the fundamental principle of full cost method. Under SEC Regulations (S-X, Rule 4-10) and UK SORP guidance entire cost pools are subject to ceiling test under full cost method. Accordingly, we believe, that till IASB issues detailed authoritative guidance on extractive industry accounting issues, the proposed IFRS should provide guidance on the same.

**Question 4 – Identifying exploration and evaluation assets that may be impaired**

We consider the indicators of impairment for exploration and evaluation of assets suggested in the exposure draft to be appropriate.

**Question 5 – Disclosure**

We consider the disclosures specified in the exposure draft to be appropriate.