

April 23, 2004

Sir David Tweedie  
Chairman IASB  
30 Cannon Street  
London EC4M 6XH  
UK

Dear David,

Re: ED 6 *Exploration for and Evaluation of Mineral Resources*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the Exposure Draft *Exploration for and Evaluation of Mineral Resources*. This letter is submitted in EFRAG's capacity of contributing to the IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRS on the issues.

In arriving at our comments we have consulted with the European national standard setters, international organisations and corporations.

We support the objectives of the exposure draft (i) to make limited improvements to accounting practices for exploration and evaluation expenditures, without requiring major changes that may need to be reversed when the Board undertakes a comprehensive review of accounting practices used by entities engaged in the exploration for and evaluation of mineral resources and (ii) to require entities engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognised. However, we are concerned about the practicability of the proposed requirement to test exploration and evaluation assets for impairment in accordance with IAS 36 *Impairment of Assets*. The appendix to this letter sets out our answers to the questions raised in the exposure draft together with our comments which we believe require consideration.

If you would like further clarification of the points raised in this letter Paul Rutteman or myself would be happy to discuss these further with you.

Yours sincerely

Stig Enevoldsen  
EFRAG, Chairman

**Q1. 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 excluded 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).*

**Response**

The definition of exploration and evaluation (hereafter referred to as “EE”) expenditures is needed in order to distinguish them from other expenditures with similar characteristics. The proposed definition “expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources” seems to be wide and might not clearly distinguish between exploration and pre-exploration expenditures.

On the other hand we believe that the elements for determining EE assets, as described in paragraph 7 and 8, are adequate. However, we recommend the IASB to clarify that the “optional” approach taken in paragraph 7 is necessary in order not to pre-empt the future discussions as regards the most appropriate measurement method (e.g. full cost method versus successful efforts method).

We believe that it is not appropriate to introduce a definition of a cash-generating unit for exploration and evaluation assets, as commented in detail in our answer to question 3 below.

**Q2. 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?*

**Response**

Yes, we consider the proposals appropriate. Paragraphs BC 8-11 describe clearly the reasons for the exemption. There is a parallel with the Insurance project (IFRS 4) in that no target date for a comprehensive IFRS on the exploration for and evaluation of mineral resources has been indicated, which may imply a long period of uncertainty. However, we accept the views of the Board that for the interim period the draft standard should clarify the accounting for EE expenditures under IFRS. It is our understanding that the discussion on the basic concepts underlying the accounting for EE assets will form part of a future comprehensive project.

The Board should clarify whether the requirements of paragraph 610 apply only when an entity elects to continue to use its existing accounting policies (instead of the IAS 8 hierarchy) or in all cases. Also, it should be clarified whether the paragraph 4 (exemption from the IAS 8 hierarchy) and 8 (expenditures that shall not be included in the initial measurement of EE assets) requirements need to be applied prospectively or retrospectively.

The draft standard does not address the potential issue of different accounting policies within the reporting entity. We invite the Board to consider this issue and would favour a requirement to apply uniform accounting policies for EE expenditures.

As regards the impairment and disclosures requirements, we refer to our comments in response to question 3.

**Q3. Cash-generating units for exploration and evaluation assets**

*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 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 IAS 36, what criteria should be used to assess the recoverability of the carrying amount of exploration and evaluation assets?*

**Response**

No. EFRAG is concerned on how the impairment test is to apply to EE assets in practice. These assets arise before the decision to develop the mineral resource thus attributing future cash flows to those assets may not be practicable or very useful. The key point about EE assets is that they are to be carried forward even though it is not yet known whether that expenditure will lead to any commercial development. We are concerned that an adoption of the IASB proposals would lead to a discrimination against early stage – start up companies that do not yet have other activities generating the necessary cash flows to cover the carrying

amounts of the EE assets and oblige established companies currently reviewing EE assets on a property by property basis to combine these in order to be able to project at least a minimum level of hypothetical cash flows.

Taking into account that companies would be permitted to continue to account for EE assets in accordance with the accounting policies applied in their most recent annual financial statements, we believe that IFRS impairment requirements should focus on events or omissions that suggest impairment, similar to the proposed paragraph 13, rather than on information about future cash flows, which is unlikely to be obtainable.

**Q4. 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?*

**Response**

EFRAG considers the proposed indicators of impairment appropriate and believes that they should be the basis for the IFRS impairment requirements next to the accounting policies that the company continues to apply in accordance with paragraph 4 – see also our response to question 3 in this respect.

**Q5. 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?*

**Response**

Taking into account the proposed recognition and measurement approach, we believe that the standard should require disclosure of the information that is considered relevant for the accounting method applied (e.g. full cost and successful efforts method).

As a minimum, disclosures similar to the relevant disclosure requirements in IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* (e.g. a reconciliation of the carrying amount at the beginning and end of the period) should be introduced.

Further, when an entity applies the revaluation model, it should be required to disclose information about the underlying assumptions and other relevant information on which the carrying amounts are based (e.g. the recognition of proven or other reserves).

Finally, the Basis for Conclusions (BC 31) explains that an IFRS reporter can continue to present EE assets as either intangible or tangible assets. For clarity reasons, we recommend the Board to incorporate this approach in the body of the standard.