CL 21

International Accounting Standards Board
30 Cannon Street
London
EC4M 6 XH
United Kingdom

Our ref : AdK
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0279
Date : Amsterdam, 16 April 2004
Re : Exposure Draft ED 6 Exploration for and Evaluation of Mineral Resources

Dear Sirs,

The Netherlands Council for Annual Reporting (CAR) appreciates the opportunity to respond to the *Exposure Draft ED 6 Exploration for and Evaluation of Mineral Resources* (further referred to as ED 6).

In the attachment we answer the specific questions raised in ED 6 together with additional comments we have.

We wish to draw your attention to our general response to ED 6. We would strongly recommend to give priority to replacing this [draft] standard by a comprehensive IFRS. This IFRS should clearly argument why a distinction between the extractive industry and similar industries (e.g. pharmaceutical industry) is appropriate. On the short term, we strongly recommend to require additional disclosure requirements for the extractive industry for the phases subsequent to exploration and evaluation, such as disclosure of commercial reserve quantities, as these are very important indicators for the value of the company's mineral resources.

Yours sincerely,

Prof. dr. Martin Hoogendoorn RA
(Chairman CAR)

Appendix

EXPOSURE DRAFT 6 – EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

General response CAR

We support the objectives of the exposure draft and understand that because of these objectives the standard has been limited in its scope and only addresses some issues that are typical for the extractive industry. This leads to the temporary situation that companies may continue applying their current accounting policies, which will lead to a very diverse practice of accounting for extractive activities by companies applying IFRS. We would therefore strongly recommend to give priority to replacing this [draft] standard by a comprehensive IFRS. This IFRS should clearly argument why a distinction between the extractive industry and similar industries (e.g. pharmaceutical industry) is appropriate. The results from the 'Extractive Industries Issues Paper – November 2000' could be used as a basis for this project.

We strongly recommend to require additional disclosure requirements for the extractive industry for the phases subsequent to exploration and evaluation, such as commercial reserve quantities, as required under both US and UK GAAP, including guidance on reserve definitions, as these are very important indicators for the value of the company's 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).

CAR 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 does not clearly distinguish between exploration and pre-exploration expenditures.
We believe that the definition of mineral resources, as set out in Appendix A, should be more clear whether it also includes resources like sand, gravel, stone, coals, sulphur, metal ores, gemstones, etc; see also the definition of extractive industries as included in paragraph 1.5 of the 'Extractive Industries Issues Paper - November 2000'. Our opinion is that the standard should be applicable for the exploration for and evaluation of these type of resources.
Paragraph 7 states that expenditures related to the following activities <u>may</u> be included in the initial measurement of exploration and evaluation assets. We understand this formulation, as different accounting policies may treat these expenditures differently. However, we suggest to include in this paragraph that these expenditures should be treated on a consistent basis for comparable activities and

between the reporting periods. Further, we believe that the elements for determining EE assets, as described in paragraph 7 and 8, are adequate.

<u>Question 2 – Method of accounting for exploration for and evaluation of mineral resources</u>

(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?

<u>CAR response</u>

Yes, we consider your proposal appropriate. Paragraphs BC 8-11 describe clearly the reasons for the exemption. There is a parallel with the Insurance project (ED 5) 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.

<u>Question 3 – Cash-generating units for exploration and evaluation assets</u>

[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?

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

<u>CAR response</u>

We accept the proposed approach since it follows logically from the proposed method of accounting for EE assets (see question 2). However, the prescribed rule for impairment testing may trigger the discussions on recognition of such items as an asset, that the Board at this stage clearly wants to avoid. In this respect, under authoritative accounting principles (eg. US and UK GAAP) expenditure incurred on exploration and evaluation pending determination, when applying the successful efforts concept[1], are exempt from the detailed rules for assessing impairment[2]. Under these policies the rules for assessing impairment and the definition of cash generating unit are similar to those of [draft] IAS 36. We propose to include a similar exemption under this standard.
We also strongly believe that more (detailed) disclosure requirements with regard to impairment testing (e.g. indicating the basis on which reserves have been taken into account) should be considered by the Board.

<u>Question 4 – Identifying exploration and evaluation assets that may be impaired</u>

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?

<u>CAR response</u>

CAR considers the proposed indicators of impairment appropriate and is not aware of additional indicators that should be used.

<u>Question 5 – Disclosure</u>

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).

---

1 Succesful efforts concept. Under the successful efforts concept, generally only those costs that lead directly to the discovery, acquisition, or development of specific, discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Costs that are known at the time of incurrence to fail to meet this criterion are generally charged to expense in the period they are incurred, although some interpretations of the successful efforts concept would capitalise the cost of unsuccessful development wells. When the outcome of such costs is unknown at the time they are incurred, they are sometimes recorded as assets (some would say "deferred") and written off when the costs are determined to be nonproductive. Alternatively, if the outcome is uncertain they may be charged to expense. Theoretically, costs that have been expensed can be reinstated if they are found subsequently to have led to the discovery, acquisition, or development of mineral reserves, but the practice of expensing and then reinstating costs that prove to be successful is rarely followed. (See 'Extractive Industries Issues Paper – November 2000', paragraphs 4.18 to 4.23)

2 Statement of Recommended Practice, Accounting for Oil and Gas Exploration, Development, Production and Decommisioning activities, June 2001, Par. 56 …. Costs capitalised pending determination of whether or not they have found commercial reserves are, where accounted for in accordance with this statement, specifically exempt from the detailed rules for assessing impairment set out in FRS 11.

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?

CAR response

Yes, but we believe that all relevant disclosures as required by IAS 16 *Property, Plant and Equipment* and (draft) IAS 38 *Intangible Assets* (e.g. a reconciliation of the carrying amount at the beginning and the end of the period) should still be required. This could be clarified by starting paragraph 15 with the following words "Besides all relevant IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* disclosure requirements, …".

We also refer to our general response with respect to additional disclosures for extractive industry for the phases subsequent to the exploration and evaluation phase.