
ACCOUNTING
STANDARDS
BOARD



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Dear David

ED6 "Exploration for and Evaluation of Mineral Resources"

The ASB apologises that this letter arrives after the deadline for comment on the above Exposure Draft.

The ASB supports the proposals in ED6 as the only appropriate way forward in the short-term, in the absence of a comprehensive standard dealing with the exploration and evaluation of mineral resources. We do, however, share the concern that the impairment test can only be an interim solution. By their nature, exploration and evaluation activities will lead to highly uncertain future cash flows. Permitting an impairment test to be carried out for a larger group of assets than a cash-generating unit can alleviate this problem in some circumstances, but does not fully address it. I attach a copy of our response to EFRAG on this issue giving more detail of the present UK requirements.

We therefore urge the IASB to seek a more permanent solution. We note that our colleagues at the Australian Accounting Standards Board have volunteered to carry out development work on behalf of IASB: we hope that your Board will encourage them to make swift progress and that IASB will be able to devote agenda time to this in the near future.

Yours sincerely

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Mr Paul Rutteman
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Dear Paul

IASB's ED 6 Exploration for and Evaluation of Mineral Resources

At its last meeting, the Accounting Standards Board (ASB) considered the text of EFRAG's draft response to the International Accounting Standards Board on the above exposure draft. This letter sets out our Board's comments on that draft response.

We agree with the support given by EFRAG to the objectives of these proposals. In general, the proposals in ED 6 are acceptable as a temporary solution pending a comprehensive review of the issues by the IASB when resources become available.

In EFRAG's responses to the individual questions in the ED's Invitation to Comment you seek comments on the definitions proposed. Our first impression from our constituency is that they are generally acceptable. In the ASB's Preface to the IASB's proposals we make the point that any exemptions introduced by ED 6 need to be carefully justified and specific in their scope.

One issue that continues to concern us is how the impairment test is to apply to exploration and evaluation assets in practice. These assets arise before the decision to develop the mineral resource thus attributing future cash flows to those assets may very difficult and possibly subjective.

In answer to Question 3 (page 3 of the Appendix to EFRAG's letter) EFRAG notes that it strongly believes that the IASB should consider requiring more detailed disclosure requirements with regard to the impairment testing. In particular, it



suggests indicating the basis on which reserves have been taken into account. If our concerns about how an impairment test applies to these assets are justified, it may not be possible or very useful to provide such information. The key point about exploration and evaluation 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, either on a full costs or successful efforts basis.

In the UK the initial treatment of costs pending determination (ie exploration and evaluation costs) is covered by the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. On the 'full costs' approach, certain expenditure on exploration and evaluation is capitalised and carried forward without depreciation provided that there is no evidence of impairment and before the conclusion of an appraisal programme. There are also time limits: the possibility of impairment must be considered if, in the case of licence acquisition costs, there is no drilling after one year or, in the case of successful exploration wells requiring further appraisal, such appraisal does not take place within two years of the discovery being made. On a 'successful efforts' approach, expenditure incurred on exploration and appraisal may be carried forward pending determination for maximum of three years in an offshore or frontier environment or two years in other areas, unless further appraisal of the prospect is firmly planned or underway.

It seems to us, therefore, that to set up effective impairment tests for exploration and evaluation assets, the emphasis should be on events or omissions that suggest impairment rather than information about prospective reserves, which is unlikely to be available. It is helpful that the IASB has identified six more scenarios indicating that exploration and evaluation assets might be impaired. However, the IASB might also like to consider introducing some indicative time limits on the capitalisation of certain exploration and evaluation costs.

I am sure you will understand that, as the ASB is currently consulting on the proposals contained in the IASB exposure draft, we will be reconsidering the issues we believe it raises in the light of the results of that consultation.

If you have any questions concerning this letter, or would like further information on any of the comments made, please do not hesitate to contact either Janie Crichton (+44 20 7611 9714) or myself (+44 20 7611 9702).

Yours sincerely

Mary Keegan
Chairman