



International Accounting Standards Board®

Press Release

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IASB PUBLISHES PROPOSALS ON EXPLORATION AND EVALUATION ASSETS

The International Accounting Standards Board (IASB) today took the first step towards improving accounting practices in the extractive industries—the oil and gas and mining sectors—by publishing proposals for greater transparency. The proposals are set out in Exposure Draft ED 6 *Exploration for and Evaluation of Mineral Resources*. The Exposure Draft proposes guidance for entities in the extractive industries that will be expected to comply with International Financial Reporting Standards (IFRSs) from 2005. At present there is no IFRS that applies to such entities, and various aspects of extractive industries' activities are excluded from some existing standards that would otherwise be relevant. Furthermore, accounting for exploration and evaluation activities varies widely throughout the world and is often inconsistent with accounting practices for other industries.

In developing ED 6, the IASB has tried to balance the need to introduce guidance in international standards with the recognition that developing a global consensus on a rigorous and comprehensive approach would require extensive consultation. That consultation could not be completed in time to meet the starting date of 2005 set by a number of jurisdictions for the application of international standards. In that light, ED 6 marks only the initial phase of the IASB's project on extractive industries. It is aimed at introducing improved disclosures for exploration and evaluation assets. In addition, the proposals are intended to introduce modest improvements to recognition and measurement practices, especially the testing of exploration and evaluation assets for impairment, without requiring extensive changes that themselves might need to be changed when the IASB addresses issues in the extractive industries in a comprehensive manner.

In the subsequent phase, the IASB will address broader conceptual and practical issues related to accounting in the extractive industries generally. These will be the subject of a research project commissioned by the IASB from a group of national standard-setters from

Australia, Canada, Norway and South Africa. The IASB has not yet decided when it would be able to add a formal standards project to its agenda.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said:

“Developing a widely respected accounting standard that addresses the many complex practical and conceptual problems in extractive industries’ accounting is a concern for the IASB. However, the Board cannot consider and reach an informed conclusion on all issues and viewpoints and complete its work by the 2005 deadline for the introduction of IFRSs set for the introduction of IFRSs in many jurisdictions. At the urging of some of our partner standard-setters and other interested parties, the IASB has published the proposals in ED 6 to provide some preliminary initial guidance on extractive industries’ accounting practices without imposing significant costs on those industries in advance of completing the larger project.”

The IASB invites comments on the Exposure Draft by 16 April 2004.

Copies of ED 6 *Exploration for and Evaluation of Mineral Resources* (ISBN 1-904230-39-3) are available, at £10 each (€16/US\$15) including postage, from the online bookshop or contact: IASCF Publications Department, 1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749. Email: publications@iasb.org. Web: www.iasb.org

Subscribers to the IASB’s *Comprehensive Subscription Service* can view the Exposure Draft from the secure online services area of the IASB’s Website. From 26 January the complete text of the Exposure Draft will be freely available from the Website.

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Press enquiries:

Sir David Tweedie, Chairman, IASB,
telephone: +44 (0)20 7246 6460, email: dtweedie@iasb.org

Kevin Stevenson, Director of Technical Activities, IASB,
telephone: +44 (0)20 7246 6460, email: kstevenson@iasb.org

Wayne Upton, Director of Research, IASB,
telephone: +44 (0)20 7246 6410, email: wupton@iasb.org

NOTES TO EDITORS

- 1 The exploration for and evaluation of mineral resources are excluded from the scope of IFRSs that would otherwise be relevant (eg IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*). The International Accounting Standards Board is concerned that accounting practices for such activities are diverse and differ not only between sectors of the extractive industries but also from the requirements in IFRSs for activities that may be thought to be similar and related.
- 2 However, it is not feasible for the Board to complete a comprehensive project on accounting and financial reporting issues for the extractive industries in time for the many entities that may wish or are required to adopt IFRSs in 2005. Therefore, the Board wishes to provide guidance on the treatment of exploration and evaluation expenditures that will enhance comparability between entities while avoiding unnecessary disruption to the application of those treatments, pending more complete consideration of the accounting issues involved.

The Exposure Draft proposes the following:

- 3 The proposed IFRS would permit an entity to continue the accounting policies applied in its most recent annual financial statements for exploration and evaluation expenditures, including the recognition and measurement of exploration and evaluation assets. In addition, it would permit an entity to use an alternative level of aggregation for exploration and evaluation assets when testing such assets for impairment in accordance with the revision of IAS 36 *Impairment of Assets* proposed in an Exposure Draft in December 2002.
- 4 The definition of exploration for and evaluation of mineral resources distinguishes exploration and evaluation expenditures from other expenditures that may be regarded as similar (for example, research expenditures).
- 5 The proposed IFRS would exempt entities from some requirements of other IFRSs and the IASB *Framework*. Instead of requiring entities engaged in the exploration for and evaluation of mineral resources to consider the various sources of authoritative requirements and guidance in developing an accounting policy for such activities, the proposed IFRS would permit those entities the alternative of continuing their existing accounting treatment in specified circumstances. In particular, an entity could continue

to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.

- 6 The proposals would permit an entity that has recognised an exploration and evaluation asset to test that asset 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. However, entities are not necessarily permitted to continue existing practices with respect to the impairment test itself. Rather, the consequence of the amendment is that the impairment test proposed under IAS 36 could be applied at a level different from that otherwise required by IAS 36.
- 7 The Exposure Draft sets out indicators of impairment for exploration and evaluation assets. These are among and/or in addition to the external and internal sources of information in paragraphs 9-13 of the proposed revision of IAS 36 to be used by entities when identifying whether such assets might be impaired.
- 8 The proposed IFRS requires disclosure about:
 - (a) the amounts in the entity's financial statements that arise from exploration and evaluation expenditures.
 - (b) the level at which the entity assesses exploration and evaluation assets for impairment.
- 9 The proposed effective date for the IFRS is 1 January 2005. Earlier application would be encouraged.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In 2002, several

jurisdictions, including Australia, the European Union, and Russia, announced that they would require international standards on or before 1 January 2005.