



# First Impressions: IFRS 6 Exploration for and Evaluation of Mineral Resources

International Financial Reporting Standards



# Foreword

Accounting practices in the extractive industries first appeared on the agenda of the International Accounting Standards Committee (predecessor to the International Accounting Standards Board, or IASB) in 1998. However, subsequent to the publication of an Issues Paper in November 2000, little progress had been made.

Accepting the importance of the sector to many economies, the IASB has proposed a comprehensive project to develop an internationally acceptable approach to the many financial reporting issues that the sector faces – but internationally acceptable solutions take time to evolve.

In the short-term, the IASB has issued IFRS 6 *Exploration for and Evaluation of Mineral Resources* to address (some of) the accounting issues in relation to costs incurred in exploration for and evaluation of mineral resources.

It is the intention of IFRS 6 generally to allow the continuation of current accounting policies for exploration and evaluation costs until the completion of the comprehensive project. However, there are a number of areas where IFRS 6 will require changes to existing accounting practices and therefore to reported financial performance and position. This may be true particularly for a first-time adopter of IFRSs that previously applied national accounting practices that conflict with general IFRS principles.

We hope that this issue of *First Impressions: IFRS 6 Exploration for and Evaluation of Mineral Resources* will assist entities in their assessment of the impact of adoption of IFRS 6. However, assessment is only the first step.

A further, critical element of the transition to IFRSs (or even “merely” the application of a new accounting standard) is communication with stakeholders to ensure that changes in the way performance is presented are properly explained and understood.

While many entities still are assessing the impact of IFRS 6, there is ever-increasing pressure to communicate that impact. Changes in existing accounting practices, and in particular changes to the capitalisation of exploration and evaluation costs, may shift the focus of analysts from the balance sheet to the income statement. Entities should take the initiative to explain the issues to and to educate users, analysts and markets. Clearly communicating the impact is a challenge for all, but may be particularly acute for those that have few or no producing assets in their portfolio. Those that successfully manage the transition will be those that can separate the real business issues from the accounting noise.

The extractive industries is an exciting and challenging sector and the issue of IFRS 6 is only the start in what I am sure will be a long and interesting debate. It is likely that any comprehensive project may lead to fundamental changes to financial reporting in the sector, and we all have a role to play in the development of this guidance. KPMG will continue to share our resources, experiences and views to keep you informed. In the meantime, we hope that this publication will help you in understanding the IASB’s current thinking and likely future direction.

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## About this publication

A new IFRS or an amendment to an existing IFRS may have a significant impact on an entity's financial reporting practices and the way in which it communicates its financial performance and position. In addition, an entity must consider the impact of new reporting requirements on its business practices, financial reporting processes and information systems; all of which may require focused training and resources.

*First Impressions: IFRS 6 Exploration for and Evaluation of Mineral Resources* is a publication prepared upon release of a new IFRS or other significant amendments to the requirements of IFRSs. It includes a discussion of the key elements of the new requirements and highlights areas that may result in a change of practice for entities. Examples are provided to assist an assessment of the impact of implementing the new or revised standards.

This edition of *First Impressions: IFRS 6 Exploration for and Evaluation of Mineral Resources* considers the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

It is relevant both to first-time adopters of IFRSs and to those who currently report under IFRSs. When an issue relates specifically to one of either a first-time adopter or an entity that currently reports under IFRSs it is noted in the publication.

### **The challenge of interpreting IFRSs**

A significant challenge in implementing IFRSs is interpreting the standards and using judgement to apply them to real transactions and arrangements. This is particularly relevant to new requirements, when there may be an absence of application experience that will develop only as the standard is applied in practice. To the greatest extent possible, interpretive guidance is provided in this publication to aid entities in their application of the new requirements to different circumstances.

The overview of the requirements of IFRSs and our interpretations of them are referenced to current IFRS literature. References in the left hand margin identify the relevant paragraphs of the standards or other literature (e.g., *IFRS 6.3*, being IFRS 6, paragraph 3).

When appropriate, we will supplement the interpretive guidance and examples in this publication by adding additional interpretive guidance and illustrative examples to *Insights into IFRS*, our practical guide to International Financial Reporting Standards. *Insights into IFRS* is a publication that emphasises the application of standards in practice and explains the conclusions we have reached on many interpretative issues.

*Insights into IFRS* is available both in paper copy (updated annually) and electronically on a subscription basis on Accounting Research Online, KPMG's library of accounting, auditing and financial reporting guidance and literature ([www.aro.kpmg.com](http://www.aro.kpmg.com)). Accounting Research Online is updated on a regular basis to incorporate the most recent guidance.

### **How KPMG can help**

The member firms of KPMG International would be pleased to assist you further with the analysis and interpretation of IFRS 6. Please speak to your usual KPMG contact, your local member firm or visit [www.kpmg.com](http://www.kpmg.com).

Interpretive guidance is based on specific facts and circumstances. In many instances, further interpretation will be needed in order for an entity to apply IFRSs to its own facts, circumstances and individual transactions. Further, some of the information contained in this publication is based on the KPMG International Financial Reporting Group's interpretations of IFRSs, which may change as practice and implementation guidance continue to develop. Users are cautioned to read this publication in conjunction with the actual text of the standards and implementation guidance issued, and to consult their professional advisers before concluding on accounting treatments for their own transactions.

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# 1. Background

In December 2004, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard 6 (IFRS 6) *Exploration for and Evaluation of Mineral Resources*. The standard applies to all entities engaged in exploration for and evaluation of oil and gas and mineral resources.

Until the publication of IFRS 6, IFRSs did not address specifically the accounting for costs incurred in the exploration for and evaluation of mineral resources (E&E). Expenditures on these activities were excluded from the scope of IAS 38 *Intangible Assets* and mineral rights and mineral resources were excluded from the scope of IAS 16 *Property, Plant and Equipment*. Accounting practices applied to such items under various national GAAPs are diverse and there was no consensus as to how such costs should be treated under IFRSs.

The accounting treatment of extractive activities has been on (and, more often, off) the agenda of the IASB (and its predecessor the International Accounting Standards Committee, or IASC) since 1998. However, in 2004 the IASB decided that while a comprehensive project in this area was not feasible in the near term, some interim guidance was essential for those entities with E&E activities that are required to adopt IFRSs from 2005.

Accordingly, IFRS 6 was developed to permit an entity to determine an IFRS accounting policy for E&E expenditure based on an entity's current national GAAP accounting policies. To facilitate this, IFRS 6 provides some limited relief from the IFRS hierarchy for selecting accounting policies under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In addition, the standard provides guidance on the testing for impairment of amounts recognised as E&E assets and specifies disclosures for these assets and related expenditure.

The requirements and partial relief from other requirements of IFRSs set out in IFRS 6 are limited to the exploration for and evaluation of mineral resources and are not available by analogy to activities that occur before and after E&E – such as pre-exploration activities and the extraction of reserves – or to similar activities such as non-E&E research.

Although a comprehensive project will not be completed in the near term (see section 11), IFRS 6 represents the first step in the IASB's project to achieve the convergence of the varying accounting practices for E&E activities. The adoption of IFRS 6 may have an impact on entities within and across industry sectors. While the standard impacts all entities in the extractive industries, those that are focused solely on exploration activities may find that it has a greater impact overall on their financial statements than for exploration and production entities or those with fully integrated operations.

In April 2005, the IASB issued an exposure draft of amendments to IFRS 6 to provide additional relief in respect of the transitional provisions for a first-time adopter of IFRSs (see section 10).

## 2. Overview

- **IFRS 6 requires entities to identify and account for pre-exploration, E&E and development expenditure separately.**
- **E&E expenditure rarely will include costs incurred prior to the acquisition of an exploration licence.**
- **E&E expenditure may include the cost (and directly attributable cost of acquisition) of the licence itself.**
- **IFRS 6 permits, in many cases, an entity that incurs E&E expenditure to continue its existing accounting policies with respect to such expenditure.**
- **E&E costs can be expensed as incurred or capitalised, in accordance with the entity's selected accounting policy.**
- **Capitalised E&E costs must be segregated and classified as either tangible or intangible assets, according to their nature.**
- **IFRS 6 does not address the recognition or measurement of pre-exploration costs or post-exploration development expenditure.**
- **Previous national GAAP impairment policies cannot be continued automatically; instead the general impairment tests must be applied in measuring the impairment of E&E assets when there are indicators that the carrying amount of an E&E asset may exceed its recoverable amount.**
- **Examples of industry-specific indicators of impairment are identified.**
- **The test for recoverability of E&E assets can combine several cash generating units, so long as the group is not larger than a segment.**
- **Accounting policies for exploration and evaluation must result in information that is relevant and reliable.**
- **An entity can change its existing IFRS accounting policy regarding E&E assets if the change results in the provision of information that is more relevant and no less reliable, or more reliable and no less relevant.**

### 3. Scope

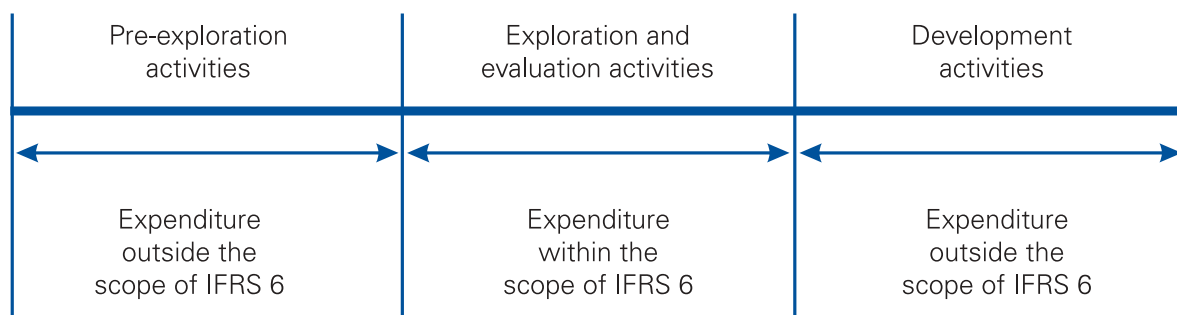
*IFRS 6.3, 4* IFRS 6 addresses the recognition, measurement and disclosure only of E&E expenditure incurred by an entity (see sections 4, 5, 8 and 9).

*IFRS 6.5* E&E expenditure rarely will include amounts incurred in activities that precede the exploration for and evaluation of mineral resources (*pre-exploration activities*), such as expenditure incurred before obtaining the legal rights to explore a specific area.

Similarly, E&E expenditure does not include expenditure incurred after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable (*development activities*).

In IFRSs, the term *development* has a specific meaning related to the activities of *research and development*. The term *development* as used in the extractive industries has a different meaning, and refers to the phase when an identified mineral resource is prepared for production or extraction (e.g., construction of access to the mineral resources). This can lead to some confusion when reading IFRS 6, which we consider uses the term with its accounting meaning. When it may be unclear from the context we use the term “development” to refer to the meaning when discussing industry practice and “(accounting) development” when referring to the IFRS usage. Specific considerations related to the differences in terminology are discussed in section 7.

The following diagram illustrates the scope of IFRS 6:



Accordingly, an entity must develop a separate accounting policy for expenditure related to each of:

- E&E activities
- pre-exploration activities
- development activities.

IFRS 6 provides no guidance or exemptions for pre-exploration and development activities (see sections 6 and 7, respectively). Such expenditure is accounted for in accordance with applicable IFRSs. In the absence of specific requirements, accounting policies are developed on the basis of the full hierarchy of guidance in IAS 8, including reference to other standards, the IASB Framework and, if desired, to national GAAPs that meet certain criteria.

However, currently there are no requirements in major national GAAPs to identify separately and account for pre-exploration, E&E and development expenditure. This has led to considerable diversity in current practice.

For entities that currently do not have separate definitions and accounting policies for pre-exploration, E&E and development expenditure, a change to past practice is highly likely. For example, in the U.K. mining sector it is typical for smaller entities that are focused on exploration activities to adopt an

accounting policy to capitalise expenditure incurred prior to the point of development and production, whereas larger entities within this sector more usually adopt a policy to expense all such costs as incurred. Equally in the oil and gas sector no distinction typically is made for pre-licence costs and the capitalisation policy is driven by the adoption of one of two methodologies: the *full-cost method* or the *successful-efforts method*.

As these entities typically will have one accounting policy for all costs incurred prior to production, the adoption of IFRS 6 will require these entities to reconsider the accounting treatment for costs incurred during each of pre-exploration and E&E activities.

This publication discusses key considerations for entities that are developing and applying accounting policies for each of pre-exploration, E&E and development expenditure.

### Other standards

IAS 16.3,  
38.2

The application of IFRS 6 provides partial or complete exemptions from the application of certain other IFRSs as follows:

- IAS 16 does not apply to the recognition and measurement of E&E assets but does apply to property, plant and equipment used to develop or maintain E&E assets. The presentation requirements of IAS 16 do apply to E&E assets that are also property, plant and equipment.
- IAS 16 does not apply to mineral rights and mineral reserves. However, the standard does apply to property, plant and equipment used to develop or maintain such assets.
- IAS 38 does not apply to the recognition and measurement of E&E assets. The presentation requirements of IAS 38 do apply to E&E assets that are also intangible assets.
- IAS 38 does not apply to expenditure on the development and extraction of mineral and similar resources.

IFRS 3 *Business Combinations* is applied to combinations in which an entity acquires a business whose activities include exploration and evaluation. Subsequent to initial recognition, we expect E&E assets acquired in a business combination to be within the scope of IFRS 6.

## 4. E&E expenditure

### 4.1 Accounting policy

*IFRS 6.A* E&E expenditure is defined in IFRS 6. An entity determines which of its expenditures meet that definition. E&E expenditure rarely will include pre-exploration expenditure, and does not include development expenditure (see sections 6 and 7, respectively).

*IFRS 6.6-7, IAS 8.10-12* For each type of E&E expenditure, an entity adopts a policy either of immediate expense or of capitalisation as an E&E asset. Management must apply its judgement to develop and apply a policy that results in relevant and reliable information.

*IFRS 6.9* The policy of expense or capitalisation should reflect the extent to which the type of E&E expenditure relates to specific mineral resources. In our view, the more closely an expense relates to a specific mineral resource the more likely it is that its capitalisation will result in relevant and reliable information.

*IFRS 6.6-7, IAS 8.11, 12* To permit some flexibility IFRS 6 suspends certain requirements of IFRSs concerning the selection of accounting policies for E&E expenditures. In particular, in developing a policy management need not consider other IFRSs (by analogy) and need not refer to the definitions contained in the IASB Framework (in particular of assets and expenses).

This flexibility to expense or capitalise types of E&E expenditure may permit the 'grandfathering' of current policies for E&E expenditures by both first-time adopters of IFRSs and existing users of IFRSs. The consistency of policies adopted across an entity's portfolio of E&E assets required by IFRSs will enhance comparability to some extent.

IFRS 6 contains specific requirements related to *changes* in accounting policy for E&E expenditures (see section 8).

### E&E assets

*IFRS 6.9* IFRS 6 provides examples of the types of E&E expenditures that may be included in the initial measurement of an E&E asset, including the following:

- acquisition of rights to explore (e.g., exploration licences)
- topographical, geological, geochemical and geophysical studies
- exploratory drilling
- trenching
- sampling
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

*IFRS 6.BC25* Specific expenditures included in the list may, but need not always, be considered as E&E expenditure eligible for capitalisation. The list of examples provided is not exhaustive and an entity may identify other E&E expenditures that would qualify for capitalisation as E&E assets.

*IAS 8.13* As an accounting policy, capitalisation or immediate expense of each type of E&E expenditure is applied consistently between periods and to similar items and activities.

In our view, the costs of similar activities are not different in type solely because the probability of them leading to proven reserves is different. This may lead to changes in current practice for those entities that currently determine capitalisation of E&E expenditures based on the probability of success. For example, an entity that undertakes E&E activities in the Middle East currently capitalises costs incurred for these activities as they have a far higher probability of success (in some cases significantly greater than 50 percent), whereas costs incurred in undertaking E&E

activities in other regions may be expensed due to a lower probability of success. The consistent application of a policy for E&E expenditures by type of expenditure may result in a change in practice for these entities, as similar types of E&E expenditures (e.g., exploratory drilling) must be accounted for consistently regardless of the geographical location in which they are incurred.

### Expensing E&E expenditure

E&E expenditure that is not recognised as an E&E asset is expensed when incurred.

E&E expenditure of a type that is not sufficiently closely related to a specific mineral resource to support capitalisation also is expensed as incurred. For example, general seismic data costs may not be sufficiently closely related to a specific mineral resource to be capitalised as an E&E asset.

## 4.2 Initial recognition and measurement

*IFRS 6.8* To the extent that an entity elects to capitalise E&E expenditure as an E&E asset, that asset is measured initially at cost.

### Administrative and other general overhead costs

*IFRS 6.BC28* IFRS 6 requires an entity to adopt an accounting policy of either expensing administrative and other general overhead costs or of capitalising them in the initial recognition and measurement of an E&E asset. In our view, the selected policy should be consistent with the approach in IFRSs to such costs incurred in relation either to inventories (IAS 2 *Inventories*), intangible assets (IAS 38) or property, plant and equipment (IAS 16). This area of IFRSs may be subject to future developments (see section 11).

*IAS 16.19* If an entity elects an accounting policy for administration and other general overhead costs consistent with the treatment of property, plant and equipment, then administrative and overhead costs will not qualify for initial recognition as E&E assets; instead, they would be expensed as incurred.

*IAS 2.10, 11* A policy based on the treatment of inventories or intangibles would require the capitalisation of administrative and general overhead costs that are *directly attributable* to the asset.  
*38.27, 66*

IFRSs applicable to inventories contain additional guidance on the allocation of overheads and production capacities that generally would not be relevant to E&E assets as production will not have commenced.

If an entity elects to capitalise *directly attributable* costs, then we believe that the following administrative and other general overhead costs may qualify for inclusion as an E&E asset:

- payroll-related costs attributable to personnel working directly on a specific project, including the costs of employee benefits for such personnel
- certain management costs if their roles are specific to a project
- sign-up bonuses paid to contractors involved in a particular project
- legal or other professional costs specific to the project, for example, costs in respect of obtaining certain permits and certifications.

The above list is not exhaustive. To the extent that an entity wishes to capitalise qualifying administrative and other general overhead costs, consideration should be given to the information systems necessary to identify those costs that are directly attributable. For example, a reliable time-keeping system may be necessary to determine the portion of the salary costs of a project manager that is directly attributable to an E&E asset.

*IFRS 6.BC28* The policy for administrative and other general overhead costs is applied consistently to comparable costs and between reporting periods. Any subsequent change is treated as a change in accounting policy (see section 8).

### **Licence acquisition costs**

*IFRS 6.BC12* In accordance with its accounting policy, an entity may recognise an exploration licence as an E&E asset. In our view, the cost of that licence includes the directly attributable costs of its acquisition. Guidance on the costs that are directly attributable is set out in IAS 38. Examples of such costs may include non-refundable taxes and professional and legal expenses incurred in obtaining the licence.

The classification of exploration licences (and similar rights) as intangible assets is discussed below.

### **Borrowing costs**

In our view, borrowing costs are not E&E expenditures that may be recognised as E&E assets in accordance with an accounting policy. Instead, we consider that the more specific guidance in IAS 23 *Borrowing Costs* should be applied.

*IAS 8.13, 23.10, 11* Under IFRSs, an entity may elect an accounting policy of capitalising certain borrowing costs as part of the cost of *qualifying assets*. If an entity chooses to capitalise borrowing costs, then all eligible borrowing costs on all qualifying assets must be capitalised.

*IAS 23.4* A qualifying asset is one which necessarily takes a substantial period of time to be made ready for its intended use or sale. Qualifying assets generally are those that are subject to major development or construction projects. There is no specific guidance on how long a 'substantial period of time' is, however, in our view, it is a period well in excess of six months.

*IAS 23.12* Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset may be capitalised only if it is probable that they will result in future economic benefits.

In our view, capitalised E&E expenditures, whether they are for items of property, plant and equipment or for intangible assets, may be qualifying assets if they otherwise meet the criteria.

Borrowing costs on such qualifying E&E assets may be included as part of their cost in accordance with the entity's accounting policy if they meet the criteria for capitalisation.

It is unclear whether the general exemption from the demonstration of probability of future economic benefits for E&E expenditures applies also to borrowing costs. If the requirements of IAS 23 apply, in the case of qualifying E&E assets, the criterion for capitalisation that may be most difficult to demonstrate is the probability of future economic benefits.

*IAS 23.11, 13* The borrowing costs that may be capitalised are those that otherwise would have been avoided. This includes interest on borrowings made specifically for the purpose of obtaining the qualifying E&E asset and costs of other borrowings that could have been repaid if expenditure on the asset had not been incurred.

*IFRIC 1.8* Borrowing costs eligible for capitalisation include, but are not limited to, interest, the amortisation of discounts or premiums and transaction costs using the effective interest rate method, finance charges in respect of finance leases, and exchange differences to the extent that they are regarded as an adjustment to interest costs. However, the periodic unwinding of a discount on restoration provisions may not be capitalised.

### **Classification**

*IFRS 6.15* IFRS 6 requires an entity to classify separately each E&E asset as tangible or intangible based on the nature of the asset.

Many identifiable E&E assets will be clearly tangible (e.g., vehicles, drilling rigs) and others clearly intangible (e.g., exploration licences). It is likely that there will also be a residual E&E asset that is

less easily classified, and that a significant component of the residual E&E asset will consist of costs incurred in constructing exploratory wells or mines.

In considering whether the nature of E&E assets is tangible or intangible, it may be helpful to ask whether the cost contributes to an item that is a physical (tangible) asset that itself will be used or, alternatively, to intangible knowledge about where, ultimately, to build a physical asset. For example, the well that will be used to extract reserves may be a tangible asset. However, an exploratory well may result only in knowledge. It is our preference that costs related to the building of exploratory wells or geological and geophysical activities be classified as intangible E&E assets.

The classification of E&E assets as tangible or intangible is the basis for accounting policy choices for both the measurement of the assets after recognition (see section 4.3) and for disclosure purposes (see section 9).

*IFRS 6.15* The split of E&E assets into tangible and intangible is to be applied consistently.

#### Intangible assets

*IAS 38.8* An intangible asset is defined in IFRSs as an identifiable non-monetary asset without physical substance. There is no requirement that the asset be held for a particular purpose.

Examples of E&E assets that may be classified as intangible in accordance with this definition include:

- drilling rights
- acquired rights to explore
- costs of conducting topographical, geological, geochemical and geophysical studies
- exploratory drilling costs
- trenching costs
- sampling costs
- costs of activities in relation to evaluating technical feasibility and commercial viability of extracting a mineral resource.

#### Tangible assets

*IAS 16.6* IFRSs do not define 'tangible'. However, most tangible assets will be identifiable items of property, plant and equipment. These are defined as items that are held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and are expected to be used during more than one period.

Based on this definition, examples of E&E assets that may be classified as tangible assets include, but are not limited to:

- equipment used in exploration, such as vehicles and drilling rigs
- piping and pumps
- tanks.

In practice, some entities currently treat E&E assets as intangible assets while others treat them as tangible. In South Africa, for example, the majority of entities classify E&E assets as tangible assets.

*IFRS 6.16* To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption may be part of the cost of the intangible asset created. However, the asset being used remains a tangible asset.

For example, if a drilling rig is used only in the exploratory phase, then the equipment is tangible in nature and will be classified as such. The depreciation expense recognised on the drilling rig represents the consumption of the tangible asset in developing an intangible E&E asset, being the

exploratory well. The depreciation should be considered for capitalisation as part of the cost of the mine shaft or well. Similarly, while tankers used to store liquid produced from an exploratory well are classified as tangible assets, depreciation of such tankers or leasing costs thereon may be part of the cost of an intangible E&E asset.

For both existing users of IFRSs and first-time adopters, the requirement to segregate E&E assets into tangible and intangible items may require a change from an entity's current practice. Current industry practice as to the classification of E&E assets varies and does not necessarily reflect the way the entities manage their costs and processes. In addition, it is hard to make generalisations about classification under current practice based on the size or nature of the entity and it is not uncommon to find E&E assets within intangible assets or as a separate component of tangible assets. For example, an entity in the oil and gas sector applying the successful-efforts method may capitalise E&E expenditure as an intangible asset when incurred, and then transfer such costs to tangible assets when a decision is made to develop the field. IFRS 6 will require such an entity to separately identify tangible and intangible E&E assets, and to develop a policy for the reclassification of these assets when commercial viability and technical feasibility are demonstrable (see section 7.3).

### **Decommissioning liabilities**

*IFRS 6.11* An entity applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the costs of any obligations for removal and restoration that are incurred as a consequence of having undertaken the exploration for and evaluation of mineral resources. Many entities in the extractive industries incur an obligation in relation to site restoration and decommissioning as a result of undertaking E&E activities.

Obligations that result from production (i.e., the extraction of reserves) are recognised only as extraction occurs and are beyond the scope of this publication.

*IAS 37.10* An obligation may be either legal (i.e., the result of legislation or the terms of an exploration licence) or constructive. A constructive obligation arises when an entity, by past practice or sufficiently detailed public statements, has created a valid expectation in other parties that it will carry out an action. For example, an entity operates in the oil industry in a country that has no environmental legislation. However, the entity has published an environmental policy indicating that it will clean up all contaminated sites and has, in the past, cleaned up such sites. Therefore, the entity has a constructive obligation because its policy creates a valid expectation that it will clean up the contamination.

A management decision alone does not give rise to a constructive obligation, as it does not create a valid expectation in third parties until that decision is communicated to them. Therefore, a board decision does not trigger recognition of a provision.

*IAS 37.36, 47* Under IFRSs, decommissioning obligations are measured at the best estimate of the expenditure to be incurred, discounted when material.

*IAS 37.14* The obligation for decommissioning or site restoration is provided for in full immediately when the event occurs that gives rise to the decommissioning obligation – the installation of the asset or preparation of the site. For example, a provision is recognised for the expected cost of dismantling a test drilling rig when it is installed.

In our view, the initial estimate of a decommissioning liability is treated consistently with the treatment of the E&E expenditures that gave rise to the obligation. For example, if a decommissioning liability arises in relation to drilling test bores and expenditures incurred thereon are capitalised as an intangible E&E asset, then the initial estimate of a decommissioning liability would be treated as part of the cost of the intangible asset. As entities may have differing treatments for different types of E&E expenditures (see section 4.1), this may result in the cost of some decommissioning liabilities being recognised as part of the cost of the related E&E asset (whether

classified as tangible or intangible) while the cost of other liabilities is expensed immediately in profit or loss.

Unwinding of the discounted liability is reflected in the income statement as interest expense. The decommissioning cost included in the cost of an E&E asset is subject to depreciation or amortisation (see section 4.3) and impairment testing (see section 5) on the same basis as the related E&E asset.

In our view, changes to an existing obligation should be added to or deducted from the cost of the related E&E asset or expensed, consistent with the treatment of the initial estimate. To the extent that a change is capitalised, the guidance in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* should be applied.

**IAS 37.14** If an obligation to dismantle or decommission an E&E asset or restore the environment arises after the initial recognition of the asset, then a provision is recognised at the time that the obligation arises. In our view, new obligations, for example those triggered by a law enacted after the asset was acquired, should be dealt with in the same way as obligations that arose at the time when the E&E expenditure was incurred.

In determining the site restoration and decommissioning liabilities, entities often obtain estimates from third party experts as to the expected amount of the obligation. When these estimates include amounts for the residual values of E&E assets, such amounts may not be deducted from the site restoration and decommissioning liabilities. Instead, residual values of E&E assets are considered in determining the depreciable amount of a tangible E&E asset (or an intangible E&E asset with a finite useful life) (see section 4.3).

The accounting treatment for decommissioning liabilities under major national GAAPs is varied. The recognition of decommissioning liabilities in accordance with IFRSs may result in a change in practice for many entities. The impact of this change will be particularly significant for entities that currently do not record any decommissioning costs until they are paid. For entities that accrue the estimated future costs only over the productive life of the mine or field on a unit-of-production basis or those that record an accrual at commencement of the project of the full net present value of the estimated future environmental costs, the requirements of IAS 37 will result in a change in both the timing of the recognition and the presentation of the liability and any related asset in the financial statements.

### 4.3 Measurement after recognition

**IFRS 6.12** After recognition, an entity applies either the cost model or the revaluation model, as appropriate, to E&E assets.

#### Cost model

**IAS 16.6, 53  
38.100** Tangible E&E assets (and intangible E&E assets with a finite life) are depreciated (amortised) over their useful lives. The depreciable amount of a tangible E&E asset (or intangible E&E asset with a finite useful life) is its cost less its residual value. The residual value of a tangible E&E asset is the amount that an entity could receive for the asset at the balance sheet date if the asset were in the condition as it will be when the entity expects to dispose of it. The residual value of an intangible asset with a finite useful life is assumed to be zero unless certain criteria are met.

**IAS 38.88** Intangible E&E assets with an indefinite useful life are not amortised. However, due to the nature of the assets, it will be extremely rare for an intangible E&E asset to be assessed as having an indefinite useful life.

Depreciation or amortisation of a tangible or intangible asset commences only when the asset is available for use. Certain identifiable E&E assets (e.g., an exploratory licence, a vehicle or a drilling

rig) may be available for use immediately. Other E&E assets may not to be available for use until a later date, for example, when development of the mineral resource commences.

*IAS 38.97, 98* In the case of intangible assets that are available for use, generally it is rare that there will be persuasive evidence to adopt a depreciation method that results in lower cumulative amortisation than under the straight-line method. However, in our view, the use of the units of production method for intangible E&E assets that are available for use may be appropriate.

*IAS 36.2, 4* Both tangible and intangible E&E assets are tested for impairment in some circumstances (see section 5).

### **Revaluation model**

In practice, the revaluation of intangible E&E assets will be very rare as these assets are not homogenous. As few national GAAPs permit the revaluation of E&E assets, we anticipate that there will be little demand to apply a revaluation approach to E&E assets whether classified as tangible or intangible.

If the entity elects to apply the revaluation model, then the model applied should be consistent with the classification of the assets as tangible or intangible. As such, tangible E&E assets will be revalued using the model in IAS 16 and intangible E&E assets using the model in IAS 38. There are some differences in the revaluation models for tangible and intangible assets under IFRSs (see IAS 16 and IAS 38 respectively). These revaluation models permit the revaluation of assets only when specified requirements are met.

*IFRS 6.25, IAS 16.36-38* IFRS 6 notes that E&E assets should be treated as a separate class of assets for disclosure purposes. IFRSs generally define a class of assets as a grouping of items that have a similar nature and use in an entity's operations. Ordinarily, a policy of revaluation must be applied to all assets in a class.

In our view, tangible and intangible E&E assets may be viewed as two separate classes. We believe that generally all tangible E&E assets will form a single class and a policy of cost or revaluation should be applied consistently to all assets in that class. However, we believe that it is acceptable to apply the revaluation model to tangible E&E assets and the cost model to intangible E&E assets.

### **Revaluation model for intangible E&E assets**

*IAS 38.8, 75* Intangible E&E assets may be revalued to fair value only when an active market exists. An active market exists when all of the following are met:

- the items traded are homogenous
- willing buyers and sellers normally can be found at any time
- prices are available to the public.

We believe that it will be very rare for an intangible E&E asset to meet these criteria.

### **Revaluation model for tangible E&E assets**

*IAS 16.31, 32* Tangible E&E assets may be revalued to fair value, provided that fair value can be measured reliably.

Fair value usually is determined by appraisal on the basis of market-based evidence, based on the asset's present (geographical) location and condition (i.e., it assumes that any transportation costs are borne by the purchaser). We expect that there will be difficulties in determining fair value for tangible E&E assets. For example, there may be lack of evidence of market value as the assets generally are specialised and rarely sold except as part of a continuing business or when the design of equipment is specially adapted for a well with particular characteristics. In addition, there may be difficulties in finding an observable market that may serve as a basis for estimating market value.

*IAS 16.33* When there is no market-based evidence of fair value, depreciated replacement cost (DRC) or an income approach may be used to estimate fair value. This might occur when the asset is specialised and rarely sold except as part of a continuing business. As the income (cash flows) that may be generated in the future by an E&E asset are highly uncertain, in our view, it is unlikely that an income approach will provide a reliable estimate of fair value of a tangible E&E asset.

Due to the difficulties in determining fair values for tangible E&E assets, we anticipate that the revaluation of these assets will be rare.

#### Frequency of revaluation

*IAS 16.31, 38.75* If an entity establishes that the criteria for the revaluation of tangible and intangible E&E assets are met and elects to apply the revaluation model, then revaluations are made with such regularity that the carrying amount of these assets does not differ materially from the fair value at the reporting date.

The frequency of revaluation will depend on the volatility of the fair value of the E&E asset being valued. If the E&E assets that are being revalued experience significant and volatile changes in fair value, then, in our view, revaluation would be performed at least on an annual basis.

## 5. Impairment

*IFRS 6.18* IFRS 6 requires an entity to apply IAS 36 *Impairment of Assets*, to measure, present and disclose the impairment of E&E assets.

*IAS 36.59, 74* When measuring impairment, the carrying amount of an asset is compared to its recoverable amount and any excess is recognised as an impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. Whenever possible, individual assets are tested separately. When this is not possible, assets generally are tested for impairment in groupings called cash-generating units (CGUs).

*IFRS 6.18, 19* However, IFRS 6 does provide some relief from the general requirements of IFRSs on assessing whether there is any indication of impairment (see section 5.1). The level at which any impairment assessment is performed is specified and may be a more aggregated level than would be required for non-E&E assets (see section 5.2). The assessment of impairment then is performed in accordance with IAS 36.

By their nature extractive activities are highly capital intensive with significant investments in long-lived assets. For most entities with extractive activities, the requirement to apply IAS 36 is likely to result in a change in practice, especially with respect to assessing E&E assets for impairment. This section covers some of the key implementation issues related to testing E&E assets for impairment.

In addition to the general relief, IFRS 6 offers some transitional guidance and relief with respect to impairment. Transitional requirements differ for existing users and first-time adopters (see section 10).

### 5.1 Indicators of impairment

*IFRS 6.18, BC39* Under IFRS 6, E&E assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Unlike other assets, there is no requirement to assess whether an indication of impairment exists at each reporting date, until an entity has sufficient information to reach a conclusion about commercial viability and the feasibility of extraction.

*IFRS 6.20* IFRS 6 includes industry-specific examples of facts and circumstances that, if one or more are present, indicate that an entity should test an E&E asset for impairment. One such indicator is that an entity's right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed.

"Near future" is not defined under IFRSs. We expect it to be interpreted as a period sufficiently short such that no significant doubt exists as to whether the area can be developed and any reserves extracted so as to recover the carrying amount of E&E assets before the right to explore lapses. We expect that any areas for which the rights to explore are due to expire within twelve months of the balance sheet date would be reviewed against this list of indicators. In our view, it is likely that other examples of indicators in IFRS 6 will exist before this point is reached. These indicators are:

- Substantive expenditure on further exploration and evaluation activities in the specific area is neither budgeted nor planned.
- The entity has not discovered commercially viable quantities of mineral resources as a result of E&E activities in the area to date and has decided to discontinue such activities in the specific area.
- Even if development is likely to proceed, the entity has sufficient data indicating that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale.

These indicators are based on management information or intentions and decisions with respect to a given area of exploration and can be easily monitored.

In our view, the identification of ‘the specific area’ being monitored is likely to be a significant factor in the frequency with which indicators exist and therefore when it is necessary to review the recoverable amount of E&E assets. In practice, it may be preferable for the level at which indicators are monitored and the level of E&E assets for which the recoverable amount is reviewed (see section 5.2) to be consistent.

The list of impairment indicators is not exhaustive, and there may be additional facts and circumstances that would suggest that an entity review E&E assets for impairment. Other impairment indicators may include, for example, significant adverse changes in commodity prices and markets or changes in the taxation or regulatory environment.

## 5.2 Level of impairment assessment

*IFRS 6.21,*  
*22*

IFRS 6 requires an entity to determine an accounting policy for allocating E&E assets to CGUs or groups of CGUs for the purpose of assessing such assets for impairment. IFRS 6 is different from the exposure draft of this standard which permitted IAS 36 to be applied to ‘special’ CGUs for E&E assets. IFRS 6 requires entities to allocate potentially impaired E&E assets to the carrying amount of other E&E assets (or to the carrying amount of producing assets) in the same CGU or segment and to test the combined carrying amount for impairment.

An entity may be able to identify E&E assets for internal management purposes at a low level, for example, at the level of a specific geological structure thought to contain hydrocarbons or a contiguous ore body. Although an entity may choose to assess impairment at this level, IFRS 6 does not require impairment to be assessed at such a low level and permits an entity to combine one or more CGUs for the purpose of testing E&E assets for impairment.

However, continuing to aggregate costs for an area that will not be developed with other CGUs may result in knowingly carrying forward costs associated with assets when a decision has been taken not to develop those assets. Entities must consider the level of impairment assessment to avoid assets being carried forward that would, if not aggregated with other assets, be impaired. In our view, a policy of writing off the capitalised costs of E&E assets that relate to a specific area identified as not capable of being developed into a producing asset is consistent with the encouragement to consider additional indicators of impairment (in paragraph 20), and therefore may be appropriate.

*IAS 36.6, 69* IAS 36 defines a CGU as “the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.” In identifying whether cash inflows from assets or CGUs are largely independent of the cash inflows from other assets or CGUs, IAS 36 indicates that factors to be considered include the manner in which management monitors operations and makes decisions about continuing or disposing of assets and / or operations.

*IFRS 6.21* While IFRS 6 permits an entity to aggregate CGUs to form a group of units for the purposes of impairment testing, the CGUs or group of units cannot be a level of aggregation higher than that of the segment under IAS 14 *Segment Reporting* to which the CGU belongs (on the basis of either the entity’s primary or secondary segment reporting format).

In our view, the requirement that each CGU (or group of units) may not be larger than a segment is not considered in absolute terms such as segment revenue or assets. Instead, it should be interpreted that impairment testing may not be performed at a level that results in the aggregation of E&E assets or CGUs belonging to different segments (either business or geographical).

For example, an entity that is a first-time adopter of IFRSs has two exploration sites in the same country. Under IFRSs, these two sites are reported in different geographical segments because different geological operational conditions mean that each site has different risks and returns, for

example, U.K. onshore and U.K. offshore operations. The entity previously treated these two sites as one cost pool under previous national GAAP. When adopting IFRS 6, the entity will have to assess the two sites separately as they do not form part of the same CGU or group of units.

The identification of CGUs or groups of units requires judgement and may be one of the most difficult areas of impairment testing for E&E assets. Its interaction with the indicators of impairment based upon "a specific area" will require consideration.

For example, for U.K. entities in the oil and gas sector applying the successful-efforts method, the requirement to allocate E&E assets to CGUs or a group of units is not dissimilar to current practice set out in the Statement of Recommended Position (SORP) *Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities*. This guidance contains a similar concept of an income generating unit (IGU), whereby the IGU generally will be associated with a particular field or group of fields that are to a significant degree economically interdependent. However, as a result of the limit based on IAS 14, an entity should review existing cost pools, as some current combinations of activities may not comply with IAS 14's limits for combining activities in a single segment. This is particularly relevant to those entities applying the full-cost method.

Upon determination of an accounting policy for the allocation of E&E assets to CGUs or groups of units, this policy should be applied consistently from period to period for the same types of assets. A change in accounting policy would be permitted only if the criteria for such a change set out in IAS 8 were met (see section 8).

### **5.3 Assessment of recoverable amount**

*IFRS 6.18* When facts and circumstances suggest that the carrying amount of a CGU of E&E assets (or a group of such units) may exceed its recoverable amount, an entity performs an impairment assessment in accordance with IAS 36.

*IAS 36.6, 18-23* Under IAS 36, recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

It is likely that many entities first will determine the value in use, as the information from which to perform this assessment will be available more readily. Generally, the entity also will determine fair value less costs to sell only if this assessment highlights a potential impairment loss.

#### **Value in use**

*IAS 36.33* In estimating value in use, the estimate of future cash inflows and outflows are to be derived from the continuing use of the asset, using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the assets.

Cash flow projections are to be based on budgets approved by management that do not exceed five years. If a longer period is justified, then the period beyond five years should be an extrapolation of near-term projections. A longer period of projections can be used if management is confident that these cash flows are reliable.

For most extractive activities, detailed budgets are prepared covering a period significantly in excess of five years, typically for the estimated field or mine life, which could be 20 years or more. Accordingly, when these are considered reliable, cash flow projections may be based on these longer budget periods.

### Future capital expenditures

*IAS 36.44* Generally, when assessing impairment under IAS 36, future cash flows are to be estimated for the asset in its current condition. In the case of assets that are in use, cash flows should not include future capital expenditure that will improve or enhance the asset's performance. For example, amounts relating to the application of future technology that may enhance reserves would be excluded from both the projected cash inflows and capital expenditure.

*IAS 36.42* However, in the case of an asset that is not yet ready for use, estimates include cash outflows expected to be incurred to bring the asset into use. In our view, the same approach is appropriate in the case of an E&E asset or CGU that is not yet in use, for example, an E&E asset that has not yet reached development.

It is not uncommon for certain entities, particularly those in the mining industry, to undertake phased development of a project. Under some previous national GAAPs, cash flow projections prepared to estimate value in use for impairment tests may include expected future capital expenditure to prove up and access further reserves if they are an integral part of the development decision and the company is "demonstrably committed" to that expenditure. It is unclear whether a phased project would be considered a development stage project under IAS 36, and therefore whether or not the future capital expenditures can be taken into account as part of any projections of future cash flows required.

### Reversal of impairment

*IFRS 6.BC48*, *IAS 36.114* Under IFRSs, partial or full reversals of impairments of assets, other than impairments of goodwill, must be recognised if there is a change in the estimate of the recoverable amount. There is no exemption from the general requirement in IAS 36 to reverse impairment losses recognised on E&E assets. In assessing whether an impairment loss may no longer exist, in whole or in part, the entity should consider the same factors that it considered in assessing whether there was an impairment loss in the first place. The reversal should not result in a carrying amount being greater than it would have been in the absence of an impairment loss.

*IAS 36.116* The value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time, even if the recoverable amount of the asset becomes higher than its carrying amount.

These requirements for, and limits on, reversals of impairments are consistent with the guidance of the U.K. oil and gas SORP and current practice in South Africa.

## 6. Pre-exploration expenditure

IFRS 6 requires entities to identify and account for pre-exploration, E&E and development expenditure separately. Therefore, entities will need to determine what constitutes pre-exploration and development expenditure and develop a separate policy for these expenditures.

Development expenditure is discussed in section 7.

Since pre-exploration costs are outside the scope of IFRS 6, the resulting requirement to apply the general principles of IFRSs in developing an IFRS accounting policy for these costs may result in a change in practice for entities that are first-time adopters of IFRSs.

### 6.1 Identifying pre-exploration expenditure

*IFRS 6.5(a)* Although IFRS 6 does not define pre-exploration expenditure, the exclusion of pre-licence costs from the scope of IFRS 6 implies that E&E activities commence upon the acquisition of legal rights to undertake exploration activities in a certain area.

Activities prior to the acquisition of an exploration licence are effectively pre-exploration. Costs incurred in relation to these activities will need to be identified separately. IFRS 6 does not provide examples of pre-licence costs, which typically include the acquisition of speculative seismic data and expenditure on the subsequent geological and geophysical analysis of this data.

A formal process of bidding for licences may help the separate identification of activities that precede obtaining the licence. See section 4.2 concerning the directly attributable costs of obtaining a licence.

However, in some regions the licence process is less formal. For example in certain areas in Africa it is not uncommon for a significant amount of E&E activity to commence whilst finalising the formalities of obtaining a licence and government approval, based on a valid expectation of a licence being granted. In our view, when the grant of the licence is subject only to administrative processes that are not substantive, we believe that the licence may be deemed to have been granted. It is necessary to consider the nature of the regulatory approval in each case as this determination is a matter of fact rather than accounting policy. Accordingly, it may be appropriate in some circumstances to capitalise E&E expenditures incurred prior to obtaining the licence, subject to an entity's accounting policies for these expenditures.

### 6.2 Accounting for pre-exploration expenditure

IFRS 6 does not address the recognition or measurement of pre-exploration costs.

Accordingly, in the absence of a specific standard, management must use judgement to develop an appropriate accounting policy for these costs in accordance with IFRSs.

*IFRS 6.BC10* In the Basis for Conclusions to IFRS 6, the IASB noted that an appropriate accounting policy for these expenditures can be developed from existing IFRSs, the definition of assets and expenses included in the IFRS Framework, and from the general principles of asset recognition included in IAS 16 and IAS 38.

*F.83* Under the IFRS Framework, an asset is recognised in the balance sheet when it is "probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably".

*IFRS 6.BC13* Generally, pre-exploration expenditure cannot be associated with any specific mineral reserves as they generally are speculative in nature, for example costs incurred in re-assessing previous seismic data. In our view, such expenditure should be expensed when incurred.

As Australian GAAP requires rights of tenure prior to capitalisation of E&E expenditure, adoption of IFRS 6 should not result in a significant change in current practice in this respect. However, for entities reporting under other GAAPs that currently capitalise pre-exploration expenditures, this will result in an impact on the financial statements both at the date of adoption of IFRS 6 and in subsequent reporting periods. The impact may be particularly significant for entities that capitalise costs related to pre-licence evaluations and costs incurred as part of the process of deciding to acquire the exploration licence.

There may be some cases when expenditure incurred in the pre-licence phase gives rise to an item that is an asset, notwithstanding that it relates to E&E activities; for example the purchase of seismic data or analysis from a third party. In these cases an entity should consider whether the expenditure meets the criteria for recognition as an asset in accordance with the IFRS Framework.

In addition, these costs might qualify for recognition as an intangible asset to the extent that pre-licence prospecting and exploration costs give rise to proprietary information that the enterprise has the ability to control.

*IFRS 6.BC13* IFRSs require the recognition of property, plant and equipment as an asset even if it will be used in pre-exploration activities.

## 7. Development expenditure

As discussed in section 3, there are differences in terminology between IFRSs and industry practice as it relates to the term *development*.

**IAS 38.7.58** IFRS 6 does not contain a definition of development activities or expenditures. IAS 38 defines (accounting) development in the context of *research and development* as “the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.” Examples of (accounting) development expenditures include costs related to the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production.

In the context of industry practice development refers to the phase when an identified mineral reserve is prepared for production (e.g., construction of access to the mineral resources); in our view, these development activities are more akin to the construction of an asset to be used in commercial production than to expenditures incurred for (accounting) development activities.

**IFRS 6.5(b)** IFRS 6 implies that the development activities to which the standard does not apply commence when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

In the extractive industries, upon determination of technical feasibility and commercial viability (see section 7.1 below) an entity generally will proceed directly to development activities (i.e., construction phase), and therefore may not subsequently incur costs that would be considered (accounting) development expenditures.

### 7.1 Identification of development expenditure

**IAS 8.11, 12** IFRS 6 does not prescribe when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable; entities will need to establish a policy that can be applied consistently. In the absence of specific guidance in IFRS 6, management must use judgement to develop an appropriate accounting policy in accordance with IFRSs. The hierarchy set out in IAS 8 is used as a basis. The hierarchy requires reference to other IFRSs (including Interpretations) that address similar issues and the definitions, recognition criteria and measurement concepts in the IASB Framework. The hierarchy permits reference to other GAAPs and industry practices, provided that the adopted policy is consistent with the IASB Framework.

It is likely that a significant factor in determining technical feasibility and commercial viability will be the existence of proven and probable reserves. It is expected that entities will be making such assessments based on either their in-house, operators’ or third-party reserve evaluations. In assessing commercial viability an entity will need to consider whether they have adequate resources to proceed with development activities.

When an entity has formulated a policy for determining what constitutes development expenditure, this policy should be applied consistently.

### 7.2 Accounting for development expenditure

**IFRS 6.10** Under IFRS 6, once the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, expenditure related to the development of that mineral resource must not be recognised as E&E assets.

As expenditure on the development and extraction of mineral resources is outside of the scope of IAS 16, IAS 38 and IFRS 6, an entity will need to determine an accounting policy related to these expenditures using other available guidance.

*IFRS 6.BC27* The IASB noted that the development of a mineral resource once E&E activities have concluded is an example of the (accounting) development phase of an internal project. Under IAS 38, in the development phase of an internal project an entity generally can identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. Based on this guidance, to the extent that an entity incurs expenditures of an (accounting) development nature, we believe that the capitalisation of that expenditure as an intangible asset may be appropriate.

Alternatively, an entity may conclude that there exists no (accounting) development phase between the determination of technical feasibility and commercial viability and activities that are preparation for production or extraction of a specific mineral resource (development activities). In this case, it may be appropriate to capitalise development expenditure as part of the cost of an item of property, provided that those costs otherwise qualify as part of cost.

### **7.3 Reclassification of E&E assets**

*IFRS 6.17* Under IFRS 6, when E&E activities in an area cease, an entity (a) must stop capitalising E&E costs for that area; (b) test recognised E&E assets for impairment; and (c) cease to classify any unimpaired E&E assets (tangible and intangible) as E&E.

E&E assets may be reclassified either as tangible or intangible development assets. The reclassification of E&E assets to development assets is an accounting policy choice that must be applied consistently.

#### **Identifiable E&E assets**

Generally identifiable tangible E&E assets such as an exploratory rig will continue to be utilised by an entity undertaking E&E activities for other projects, reclassification of these assets will not be appropriate. However, we believe that entities should reassess the appropriateness of the depreciation period (see section 4.3) and allocation of these assets to CGUs or groups of units (see section 5.2) at the time the assets are reallocated to other E&E projects.

Identifiable tangible assets that cease to be classified as E&E assets generally will be classified as tangible development assets in accordance with IAS 16; for example, a vehicle that will now be used in production, whereas identifiable intangible E&E assets will continue to be classified as intangible assets; for example, an exploratory licence.

#### **Non-identifiable E&E assets**

Generally, when commercial and technical feasibility are demonstrable, a specific mineral reserve will have been identified for development. In practice, mineral reserves are variously classified as either property assets (i.e., tangible) or intangible assets. In our view, in the absence of further guidance, an entity should elect an accounting policy to classify mineral reserves as either tangible or intangible assets and apply that policy consistently. It is our preference that the mineral reserves (and by association the non-identifiable E&E assets) be classified as tangible development assets.

The following diagram illustrates the reclassification of certain assets used in extractive industries upon determination of technical feasibility and commercial viability on the assumption that exploratory rigs continue to be used in E&E activities.

Type of Asset	E+E	Reclassification	Development
	IFRS 6 recognition and measurement principles apply. Classify according to nature, apply IAS 16 and IAS 38 model as appropriate		IFRS 6 does not apply
Vehicles	Tangible		Tangible
Exploration rigs	Tangible		Not applicable
Production platforms	Not applicable		Tangible
Exploration licences	Intangible		Intangible
Non-identifiable E+E assets	Tangible or intangible <sup>1</sup>	}	Tangible or intangible <sup>1</sup>
Reserve / well	Not applicable		

1. Classification may depend on accounting policy election.

### Depreciation (amortisation)

Upon reclassification of E&E assets, an entity should depreciate (amortise) the resulting tangible development assets (and intangible development assets with a finite life) over their useful lives. For tangible development assets, the units of production method may be an allowable method.

For intangible assets, generally it is rare that there will be persuasive evidence to adopt a depreciation method that results in lower cumulative amortisation than under the straight-line method. However, in our view, the use of the units of production method for intangible development assets may be appropriate (see section 4.3).

### Impairment testing

*IFRS 6.17* Prior to reclassification, E&E assets are to be assessed for impairment and any impairment loss is recognised in profit or loss. This impairment assessment is required regardless of whether facts and circumstances indicate that the carrying amount of the E&E asset is in excess of its recoverable amount. In our view, this impairment test is within the scope of IFRS 6, so that E&E assets can be aggregated with the CGUs as described in section 5. To the extent that an entity previously had not identified facts and circumstances that resulted in impairment testing, the demonstration of technical feasibility and commercial viability would be the first time that such impairment testing would be conducted.

We believe that impairment at the time a decision to develop is made will be rare.

As IFRS 6 does not address impairment testing subsequent to reclassification of E&E assets, such impairment testing will be performed in accordance with the guidance of IAS 36. This will require an entity to develop additional accounting policies for the allocation of assets to CGUs and the assessment of recoverable amounts for these assets.

## 8. Changes in accounting policies

*IFRS 6.6-7, 9-10, IAS 8.10* IFRS 6 establishes requirements for, and provides some relief from, the selection of accounting policies regarding E&E expenses and assets. It applies to both an existing user of IFRSs and a first-time adopter of IFRSs (see section 4.1). An entity is required to use judgement to determine a policy that results in relevant and reliable information.

Changes in accounting policies are subject to additional restrictions. Any restrictions that may apply and the application of accounting policies adopted in accordance with IFRS 6 are discussed separately for each of existing IFRS users (see section 8.1) and first-time adopters of IFRSs (see section 8.2).

### **8.1 Existing IFRS users** **Restrictions applicable to E&E expenditure**

*IAS 6.13* An existing user may change its existing IFRS accounting policy for E&E expenditures if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs, judged by the criteria in IAS 8.

*IFRS 6.14* A change from one policy to another must bring the financial statements closer to meeting the criteria of relevance and reliability, but need not achieve full compliance with those criteria.

It will be difficult to assess what enhances relevance to a user of financial statements in the absence of developed practice. We believe that the benchmarks will develop with time, or as the IASB progresses its comprehensive project in this area (see section 11).

*F.26-28, 31, 32* Increased reliability may result from increased representational faithfulness or an improved reflection of economic substance (as opposed to reflecting merely the form of a transaction or arrangement). To be reliable a policy must result in information that is neutral, prudent and materially complete.

In our view, the requirement that a change in accounting policy must bring the financial statements closer to meeting the above criteria prohibits entities changing between certain policies used in current practice. For example, we believe that this requirement would preclude entities in the oil and gas sector that account for exploration and development activities using the successful-efforts method from changing to the full-cost method. In this case the change in policy is not considered to result in more relevant and / or reliable information to the user of financial statements as it may result in capitalisation of unsuccessful costs; for example, costs related to dry wells that do not represent future economic benefit.

Similarly, a mining company which currently expenses E&E costs would, in our view, be precluded from changing to a policy of capitalisation of all such costs.

Conversely, we believe that a change in policy from the full-cost method to one based upon the successful-efforts method or from capitalisation of all E&E expenditures to expensing (at least some) costs as incurred would be acceptable. In our view, expensing many such costs is more consistent with the IFRS Framework because it is difficult to demonstrate that they meet the definition of an asset, and therefore expensing these costs as incurred may be viewed as more reliable. On the same basis, if an entity expenses E&E expenditure under current accounting policies, then they may be able to continue this practice.

### **Restrictions applicable to pre-exploration activities and development expenditure**

*IAS 6.6* The modifications in IFRS 6 to the general guidance on changes in accounting policy relate only to E&E expenditure. Changes in accounting policies for pre-exploration activities and development expenditure are subject to the general requirements of IFRSs for changes in accounting policy.

### **Applying changes in accounting policies**

**IAS 8.19** When a change in accounting policy arises from the adoption of a new or revised standard or interpretation, an existing user of IFRSs should follow the specific transitional requirements in that standard. As there are no specific transitional requirements in IFRS 6 for changes in accounting policies (other than for a first-time adopter of IFRSs, see section 10), the requirements of IAS 8 are applied.

**IAS 8.22** IAS 8 requires a change in accounting policy to be made retrospectively (i.e., as if the new accounting policy always had been applied) unless it is impracticable to do so (see below).

**IAS 8.26** Retrospective application is achieved by adjusting the opening balance of each component of equity impacted by the change for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented.

For example, an entity adopting IFRS 6 on 1 January 2005 and providing comparative information for 2004 calculates the cumulative effect of the new policies at 1 January 2004 and adjusts opening equity at that date. In addition, it restates the comparative balance sheet and income statement for the year ended 31 December 2004 to apply the new policies consistently to that period.

Retrospective application may require, among other adjustments:

- the derecognition (recognition) of categories of cost to conform with new policies in regards to which types of costs (e.g., directly attributable overheads) are capitalised as E&E assets
- the derecognition of any pre-exploration expenses previously recognised as assets
- the recognition (or derecognition) of any development expenditure that met (did not meet) the recognition criteria of IFRSs at the time they were incurred
- the recognition or derecognition, as appropriate in accordance with the new accounting policy, of expenditure now determined to be E&E
- the reclassification, between tangible and intangible assets, of recognised E&E assets
- the elimination of any revaluation of E&E assets, when the new accounting policy is that they are recognised in accordance with the cost model.

**IAS 8.17** In our view, an entity that adopts a policy of revaluation for a class of E&E assets is not required to apply that policy retrospectively. Instead, the revaluation model is applied only prospectively in accordance with the relevant standard (i.e., either IAS 16 or IAS 38).

**IFRS 1.IG46, IAS 38.57** The criteria for recognition of internally generated intangibles such as (accounting) development expenditure must have been met at the date that the expenditure was incurred. Accordingly, expenditure may not be recognised as a development asset on the basis of hindsight (see impracticability below). Generally it will be possible to conclude whether the criteria were met at the date that the expenditure was incurred when either:

- Contemporaneous evidence exists that all of the recognition requirements of IFRSs were considered at that the time when the expenditure was incurred. Expenditure should be capitalised only from the date when it can be demonstrated that this information was available.
- The existence of a process or control system to ensure that no expenditure of this nature is incurred without all recognition requirements having been considered. This might be the case if, for example, the entity had a well-managed development programme that considered all of the recognition criteria and there is no reason to believe that the normal process or control system was not followed.

Entities with extensive development programmes may have control procedures in place to assess the probability of future economic benefits periodically. In our view, if an entity has such a monitoring system, and if the costs incurred were measured reliably, then this data is likely to satisfy the requirements of IFRSs for contemporaneous assessment of the probability of future economic benefits.

**IAS 8** Impracticability of retrospective application

Retrospective application is considered impracticable when restatement requires significant estimates to be made that cannot distinguish information that may be used from that which may not.

If it is impracticable to determine either the period-specific effects or the cumulative effect of the change, then the entity must apply the accounting policy to the carrying amounts of the E&E assets as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and must make a corresponding adjustment to the opening balance of each affected component of equity for that period.

Certain entities may face challenges in applying a change in accounting policy retrospectively, particularly those that may not have kept their accounting records in sufficient detail to enable them to apply a change in policy. For example, entities in the oil and gas sector who apply the full-cost method may no longer hold an interest in certain exploration licences. It may prove difficult for these entities to analyse all the costs specifically related to that licence as they will have been aggregated and held in a cost pool. Indeed, cost pool accounting by its very nature often results in a lack of transparency of capitalised costs. Entities that have recorded costs on a field-by-field or mine-by-mine basis may find it easier to apply a change in accounting policy retrospectively than those using cost pools.

If an entity elects to change an accounting policy under IFRS 6, it should consider carefully the implications of retrospective application. Specifically, an entity should assess whether the information is available currently to restate prior periods retrospectively, and if not, the level of effort required to obtain this information. In doing this entities may need to consider the capability of its accounting and information systems to support such change. This process may require the entity to analyse expenditure dating back to the commencement of activities, across all licences. Models used by entities applying the full-cost method for performing ceiling tests would need to be amended to analyse capitalised costs on a field-by-field basis rather than on a cost-pool basis.

With uncertainty around the outcome of the comprehensive extractive industry project (see section 11), we encourage entities with policies of capitalising all costs, for example as under the full-cost method, to introduce changes in their accounting and information systems to be able to carry out such an analysis in future periods.

**8.2 First-time adopters of IFRSs**

**IFRS 1.7, 42** A first-time adopter selects its first IFRS accounting policies based upon those standards that are effective at the reporting date, together with any standards that are available for early adoption. In selecting its first IFRS accounting policies, a first-time adopter is not subject to restrictions regarding *changes* in IFRS accounting policies as it has no IFRS policies prior to the selection of its first IFRS policies.

**IFRS 1.36A, 4.21** There are some specific additional restrictions that apply to the selection of certain of an entity's first IFRS accounting policies; for example, in respect of financial instruments and insurance contracts. None of these restrictions appear relevant to E&E expenditure, pre-exploration expenditure or development expenditure.

**IFRS 6.6, 7, 9, 10, IAS 8.10** Accordingly, a first-time adopter of IFRSs applies paragraphs 6, 7, 9 and 10 of IFRS 6 to determine its first IFRS accounting policy (see section 4.1). The entity is required to use judgement to determine a policy that results in relevant and reliable information, but (unlike an existing IFRS user) is not required to demonstrate that that policy brings the entity *closer* to meeting the criteria of relevance and reliability (in IAS 8) than the policy it applied to E&E expenditure under its previous national GAAP.

### **Anticipating the outcome of the IASB's comprehensive project**

Even though a first-time adopter need not demonstrate that its first IFRS policy for E&E costs brings the entity closer to the criteria in IAS 8 than the policies it used under previous national GAAP, a first-time adopter should consider the likely future developments of IFRSs in this area in order to avoid unnecessary changes to accounting policies in the future, together with the associated system and other costs that such changes may require.

We expect that the IASB's comprehensive review of the accounting for extractive industries (see section 11) will prohibit policies that allow capitalisation of pre-development costs such as the full-cost method of accounting for E&E expenditures in part due to substantial uncertainty around the existence of the asset prior to determination of proven and probable reserves. Such changes may have a significant impact on entities that currently capitalise E&E expenditures, particularly on smaller entities or those involved in exploration-only activities. These changes also would affect larger entities, however to a lesser degree, due to their regular review and write-off of capitalised E&E costs and the offsetting effect of the results of other operations on the volatility in profit or loss of expensing E&E costs.

It is likely that the adoption of IFRS 6 will no longer permit entities to apply certain aspects of the full-cost method as is currently used in practice. We encourage both existing IFRS users and first-time adopters in the oil and gas sector that currently use the full-cost method or entities in the mining sector with a current policy of capitalisation of E&E costs to reconsider these policies as they apply to E&E assets on adoption of IFRS 6. A change in policy upon initial adoption of IFRS 6 will result not only in more relevant and reliable information being provided to users of financial statements but also may reduce the need for these entities to change their policies upon completion of the IASB's comprehensive extractive industry project.

### **Applying an entity's first IFRS accounting policies**

#### *IFRS 1.7*

Generally, an entity applies its first IFRS accounting policies consistently at the date of transition to restate the opening balance sheet to an IFRS basis and in each of the periods presented in the first IFRS financial statements, even if the relevant standard does not require retrospective application for existing IFRS users.

The general "impracticability" exemptions of IAS 8 are not available to a first-time adopter and IFRS 1 (as amended by IFRS 6) contains no specific exemptions in respect of the recognition and measurement of amounts related to pre-exploration, E&E and development activities. Accordingly, at the date of transition all assets and liabilities related to these activities are recognised or derecognised as required or permitted by IFRSs. This area of IFRSs may be subject to future developments (see section 11).

Certain exemptions from the disclosure requirements of IFRS 6 are available to first-time adopters (see section 10).

## 9. Disclosures

*IFRS 6.23, 24* IFRS 6 requires disclosure of information that identifies and explains the amounts recognised in respect of E&E activities, including:

- its accounting policies for E&E expenditures, including the recognition of E&E assets
- the amounts of assets, liabilities, income and expense (and, if an entity presents its cash flow statement using the direct method, operating and investing cash flows) arising from the exploration for and evaluation of mineral resources
- for E&E assets classified as tangible and intangible assets, the disclosures required by IAS 16 and IAS 38, respectively
- whether it is impracticable to apply impairment testing to comparative information that relates to annual periods beginning before 1 January 2006.

*IAS 1.36* Subject to the transitional provisions (see section 10), comparatives are required for all amounts presented. Narrative information is provided in respect of the comparative period to the extent that it is relevant to an understanding of the current period's financial statements. This area of IFRSs may be subject to future developments (see section 11).

The definition of E&E activities covered by these disclosure requirements is narrower than that often applied for the disclosure of exploration and producing activities required by national GAAPs (such as U.S. and U.K. GAAP) and so this may result in disclosure which differs somewhat from current practice.

*IAS 1* Disclosure of information on commercial reserves and stages after E&E are outside of the scope of IFRS 6. IFRS 6 does not require disclosure of the number of years since exploration started; however, the IASB noted that if the project is significant, then its disclosure is required as it represents additional information that is necessary for an understanding of the financial statements.

### Example accounting policies

Set out below are examples of accounting policies that entities capitalising E&E costs may consider adopting to comply with IFRS 6.

#### Example 1 – Policy based upon oil and gas activities

Pre-licence costs are recognised in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licences, initially are capitalised as either tangible or intangible exploration and evaluation assets (E&E assets) according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Tangible and intangible E&E assets that are available for use are depreciated (amortised) over their estimated useful lives as follows:

- [Disclose the useful life and method used for each class of E&E asset
- ...]

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, note x). For the purposes of impairment testing, E&E assets are allocated to cash-generating units consistent with the determination of reportable segments.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets.

Expenditure deemed to be unsuccessful is recognised in profit or loss immediately.

#### Example 2 – Policy based on mining activities

Pre-licence costs are recognised in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets (E&E assets) on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as either tangible or intangible E&E assets according to the nature of the assets acquired. When a licence is relinquished or a project is abandoned, the related costs are recognised in profit or loss immediately.

Tangible and intangible E&E assets that are available for use are depreciated (amortised) over their estimated useful lives as follows:

- [Disclose the useful life and method used for each class of E&E asset
- ...]

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, note x). For the purposes of impairment testing, E&E assets are allocated to cash-generating units consistent with the determination of reportable segments.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets.

Expenditure deemed to be unsuccessful is recognised in profit or loss immediately.

## 10. Effective date and transition

### 10.1 Effective date

*IFRS 6.26* IFRS 6 must be applied to annual periods beginning on or after 1 January 2006, but earlier adoption is encouraged.

If an entity is a first-time adopter of IFRSs in 2005, it may not be able to continue using its current policies for E&E expenditures without early adopting IFRS 6. This area of IFRSs may be subject to future developments (see section 11).

### 10.2 Transitional relief for existing IFRS users

*IFRS 6.27* IFRS 6 provides transitional relief to existing users of IFRSs adopting the standard before 1 January 2006 in respect of impairment testing of E&E assets in the comparative period.

The transitional provisions of IFRS 6 state that if it is impracticable to apply the requirements of the standard as they relate to assessment, recognition and measurement of impairment of E&E assets for annual periods prior to 1 January 2006, then an entity must state this fact.

Accordingly, an existing user that voluntarily adopts the requirements of IFRS 6 on 1 January 2005 is not required to perform impairment testing of capitalised E&E assets until at least 1 January 2005, even if indicators existed in the comparative period, if doing so would be impracticable.

This exemption applies only to E&E assets, and only to testing them for impairment. It does not extend generally to the recognition and measurement of pre-exploration expenditure, E&E expenditure and development expenditure in the comparative period.

### 10.3 Transitional relief for first-time adopters

*IFRS 1.9* The transitional relief in paragraph 27 of IFRS 6 does not apply to a first-time adopter of IFRSs.

When an entity first adopts IFRSs and applies IFRS 1 *First-time Adoption of International Financial Reporting Standards*, it generally is required to select its first IFRS accounting policies and apply them consistently to the opening balance sheet at the date of transition and throughout the comparative and current reporting period. However, IFRS 6 amended IFRS 1 to provide some relief from the requirements of IFRS 6 concerning the disclosure of comparatives.

*IFRS 6.B* A first-time adopter that adopts IFRSs before 1 January 2006 and elects to adopt IFRS 6 before 1 January 2006 is exempted from providing the disclosures required by IFRS 6 in respect of the comparative period. If an entity adopts IFRSs on or after 1 January 2006, then there is no transitional relief with respect to comparative disclosures.

This area of IFRSs may be subject to future developments (see section 11).

## 11. Future developments

This publication is based on IFRS 6 and other IFRSs in issue at 1 January 2005.

### **Exposure draft**

At its April 2005 meeting the IASB indicated that the Board had intended the transitional relief in IFRS 6.B to be from applying the recognition and measurement requirements of IFRS 6 to the comparative period, and not only from disclosure requirements (see section 10.3).

On 29 April 2005, the IASB issued an exposure draft proposing an amendment to IFRS 6 and IFRS 1 to exempt an entity that adopts IFRSs prior to 1 January 2006 from being required to apply the requirements of IFRS 6 to comparative information. Comments were requested by 3 June 2005.

This amendment, if finalised in its current form, would permit a first-time adopter to apply the requirements of IFRS 6 to E&E assets only from the beginning of its first IFRS reporting period. We expect that any effect of the application of IFRS 6 would be recognised in opening retained earnings at that date.

*IAS 8.7-12* While modifying the applicability of recognition, measurement and disclosure requirements of IFRS 6 to the comparative period, the amendment does not specify what guidance should be followed in accounting for E&E expenditure in the comparative period if IFRS 6 is not applied. We have asked the IASB to clarify the application of the revised standard in our comment letter on the exposure draft.

Similarly, it is unclear how the proposed amendment will impact the application of IFRSs to pre-exploration and development expenditures in the comparative period as neither is the subject of IFRS 6.

Another question left open by the wording in the ED is whether the testing for impairment of any assets recognised that otherwise would be E&E will be required at the date of transition and during the comparative period in accordance with IAS 36 generally.

Presumably an IFRS 6 policy then would be applied at the beginning of the first IFRS reporting period with any cumulative effect recognised in retained earnings at the beginning of that period.

It does not appear that the proposed amendment extends the exemption to the disclosure of pre-exploration or to development assets. The appropriate disclosures may be determined principally by reference to IAS 1 and IAS 38.

### **Administrative and other general overheads**

*IAS 6.BC28* In finalising IFRS 6, the IASB noted that there are currently inconsistencies in the treatment of administrative and other general overheads, depending upon the asset to which they relate (inventory, intangible assets or property, plant and equipment). The IASB concluded that IFRS 6 was not regarded as the appropriate place to address these inconsistencies. Accordingly, the IASB deleted the specific prohibition in the exposure draft of this standard against including these costs in the initial measurement of an asset.

It is likely that the Board will seek to resolve the inconsistency at some point in the future. Given the original prohibition in the exposure draft of this standard, entities should consider the likely future development of IFRSs in this area when selecting an accounting policy for administrative and other general overheads.

### **Comprehensive revision of IFRS 6**

The IASB has indicated that it intends to undertake a comprehensive project to develop an internationally acceptable approach to accounting issues in the extractive industries. As the IASB currently does not have the agenda time to undertake such a project, it has asked a group of national standard-setters to undertake a research project that would form the foundation for such a project.

In November 2000, a Steering Committee of the IASB published an Issues Paper *Extractive Industries*. Among other things this paper highlighted the inconsistencies between national accounting practices in the extractive industries, and also flagged that many current national practices seemed to conflict with general IFRS principles. At the time of writing of this publication the research project team is undertaking a detailed examination of the comments received from constituents on the Issues Paper and is developing its research priorities. The research project team is assisted by an advisory panel, which includes members from industry (oil and gas and mining sectors), accounting firms, users and various securities regulators.

Currently, the research project team intends to consider all issues associated with accounting for upstream extractive activities, with a focus on the accounting for reserves / resources including: the recognition of reserves / resources on the balance sheet; the accounting treatment for pre-development costs incurred prior to and following the discovery of reserves / resources; and the disclosure of information related to reserves / resources. The research project team also will consider other issues identified in the Issues Paper and implementation issues arising from the application of IFRSs by entities conducting extractive activities.

The research project team intends to produce a discussion document incorporating the IASB's preliminary views, which would be published for public comment. As highlighted throughout this publication, it is expected that the comprehensive IASB project will have a significant impact on the current accounting practices of entities conducting extractive activities.

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