

Organismo Italiano di Contabilità – OIC (The Italian standard setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

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

March 31, 2004

Re : Organismo Italiano di Contabilità (OIC): Comments on “ED6 Exploration for and Evaluation of Mineral Resources”.

Dear David ,

I am pleased to inform you that the Executive Committee of the OIC (“Comitato Esecutivo”) has issued its comments on the “ED6 Exploration for and Evaluation of Chairman Mineral Resources”.

Yours sincerely,

Prof. Angelo Provasoli
(OIC – Chairman)

Attachments

Q1. Definition and additional guidance

The proposed IFRS includes definitions of exploration for and evaluation of mineral resources, exploration and evaluation expenditures, exploration and evaluation assets and a cash-generating unit for exploration and evaluation assets. The draft IFRS identifies expenditures that are excluded from the proposed definition of exploration and evaluation assets. Additional guidance is proposed in paragraph 7 to assist in identifying exploration and evaluation expenditures that are excluded in the definition of an exploration and evaluation asset (proposed paragraphs 7 and 8, Appendix A and paragraphs BC12-BC14 of the Basis for Conclusions).

OIC Response

We believe that the definition of exploration and evaluation assets needs clarification. The definition in Appendix A is a tautology and § 7 is not a definition but a list of items which may or may not be included in exploration and evaluation assets.

Q2. Method of accounting for exploration for and evaluation of mineral resources

- a. *Paragraphs 10-12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify sources of authoritative requirements and guidance an entity should consider in developing an accounting policy for an item if no IFRS applies specifically to that item. The proposals in the draft IFRS would exempt an entity from considering the sources in paragraphs 11 and 12 when assessing its existing accounting policies for exploration and evaluation expenditures by permitting an alternative treatment for the recognition and measurement of exploration and evaluation assets. In particular, the draft IFRS would permit an entity to continue to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.*
- b. *The Exposure Draft proposes that an entity would continue to use its existing accounting policies in subsequent periods unless and until the entity changes its accounting policies in accordance with IAS 8 or the IASB issues new or revised Standards that encompass such activities (proposed paragraph 4 and paragraphs BC8-BC11 of the Basis for Conclusions).*

Are these proposals appropriate? If not, why not?

OIC Response

Absent a specific standard on this subject, we agree with the proposal to permit entities to continue to use their existing accounting policies for exploration and evaluation assets. However we believe that the Exposure Draft should be explicit in stating that the exemption from the general principles of the IFRs does not allow inclusion in the financial statements of assets without economic substance. On this aspect see our reponse to Question 3.

Q3. Cash-generating units for exploration and evaluation assets

[Draft] IAS 36 requires entities to test non-current assets for impairment. The draft IFRS would permit an entity that has recognised exploration and evaluation assets to test them for impairment on the basis of a 'cash-generating unit for exploration and evaluation assets' rather than the cash-generating unit that might otherwise be required by [draft] IAS 36. This cash-generating unit for exploration and evaluation assets is used only to test for impairment exploration and evaluation assets recognised under proposed paragraph 4 (see proposed paragraphs 12 and 14 and paragraphs BC15-BC23 of the Basis for Conclusions).

Are the proposals appropriate? If not, why not? If you disagree with the proposal that exploration and evaluation assets should be subject to an impairment test under [draft] IAS 36, what criteria should be used to assess the recoverability of the carrying amount of exploration and evaluation assets?

OIC Response

We agree on the need of an annual impairment test as required by the (Draft) IAS 36. However future cash flows from exploration and evaluation assets depend on future capital expenditures which are excluded by (Draft) IAS 36. We suggest that the Board give guidance about if and how such future capital expenditures may be considered in the impairment test for exploration and evaluation assets.

Q4. Identifying exploration and evaluation assets that may be impaired

The draft IFRS identifies indicators of impairment for exploration and evaluation assets. These indicators would be among the external and internal sources of information in paragraphs 9-13 of [draft] IAS 36 that an entity would consider when identifying whether such assets might be impaired (paragraph 13 and paragraphs BC24-BC26 of the Basis for Conclusions).

Are these indicators of impairment for exploration and evaluation assets appropriate? If not, why not? If you are of the view that additional or different indicators should be used in assessing whether such assets might be impaired, what indicators should be used and why?

OIC Response

The indicators in § 13 are in our view appropriate.

Q5. Disclosure

To enhance comparability, the draft IFRS proposes to require entities to disclose information that identifies and explains the amounts in its financial statements that arise from the exploration for and evaluation of mineral

resources (proposed paragraphs 15 and 16 and paragraphs BC32-BC34 of the Basis for Conclusions).

Are the proposed disclosures appropriate? If not, why not? Should additional disclosures be required? If so, what are they and why should they be required?

OIC Response

The proposed disclosures are in our view appropriate.