



# HM TREASURY

## Financial Reporting Advisory Board Paper

### IFRS 6: Exploration for and Evaluation of mineral Resources

<b>Issue:</b>	That IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> has no impact on the public sector.
<b>Impact on guidance:</b>	No specific guidance to be provided.
<b>IAS/IFRS adaptation?</b>	No
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	No
<b>Impact on budgetary regime?</b>	None
<b>Alignment with National Accounts</b>	N/A
<b>Impact on Estimates?</b>	N/A
<b>Recommendation:</b>	The Board notes that IFRS 6 applies to the public sector but that no public sector bodies are engaged in mineral extraction activities. As such, the shadow FReM notes that IFRS 6 applies but no guidance is required.
<b>Timing:</b>	Not yet known: depends on future decision on date for moving to EU-adopted IFRS.

## DETAIL

### *Background*

1. The development of a standard covering the accounting and financial reporting of extractive activities has a long history. The IASB's predecessor, the International Accounting Standards

committee (IASC), established a Steering Committee back in 1998 which published an Issues Paper in November 2000. However, due to time constraints, this work did not progress to the publication of a full standard.

2. The IASB issued IFRS 6 to bridge a perceived gap in its standards which it believed would cause entities involved in extractive activities problems when adopting IFRSs for the first time in 2005. It is a 'stop gap' standard as the IASB is currently engaged in a comprehensive review of accounting for extractive activities.

3. IAS 38 *Intangible Assets* and IAS 16 *Property, Plant and Machinery* both specifically exclude mineral rights and resources from their scope on the basis that extractive activities will, in due, course be the subject of a specific standard. The IASB were concerned that without further guidance entities adopting IFRSs in 2005 would have had to account for mineral exploration and evaluation assets following guidance provided in paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes In Accounting Estimates and Errors*. The IASB believed that this would create uncertainty as to what represented acceptable accounting and might have caused entities to engage in costly exercises to establish what was acceptable. This could then have resulted in major changes in an entity's accounting policies only to be followed by further change on completion of the IASB's comprehensive review.

#### *Main Features of IFRS 6*

4. The introduction to IFRS 6 lists the main features as:

- a) permitting entities to develop accounting policies for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8. As such, an entity may continue to use those policies applied immediately prior to the adoption of IFRS 6. This includes continuing to use the recognition and measurement practices that are part of those accounting policies.
- b) requiring entities recognising exploration and evaluation assets to perform an impairment test on those assets when the facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.
- c) varying the recognition of impairments from that in IAS 36 *Impairment of Assets* but measuring the impairment in accordance with IAS 36 once the impairment is identified.

#### *Impact of IFRS 6 on the public sector accounts*

5. The Treasury knows of no entity covered by the FReM that is engaged in extractive activities or likely to become engaged in extractive activities in the future. As such, while IFRS 6 will apply to the public sector no specific accounting guidance will be provided in the shadow FReM. The shadow FReM, or its associated guidance, will contain a statement to this effect (e.g. standing alongside the current FReM is a list of those standards applied by the public sector with the relevant FReM chapter).

### ***Summary and recommendation***

6. As no public sector bodies are engaged in, or likely to become engaged in extractive activities, no specific guidance on IFRS 6 is required in the shadow FReM. The Board is invited to approve this proposal.

**HM Treasury**  
**29 June 2006**