IASB documents published to accompany

IFRS 6

Exploration for and Evaluation of Mineral Resources

The text of the unaccompanied standard, IFRS 6, is contained in Part A of this edition. Its effective date when issued was 1 January 2013. This part presents the following documents:

BASIS FOR CONCLUSIONS

DISSENTING OPINIONS

CONTENTS

Basis for Conclusions on IFRS 6 *Exploration for and Evaluation of Mineral Resources*

This Basis for Conclusions accompanies, but is not part of, IFRS 6.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Individual Board members gave greater weight to some factors than to others.

Reasons for issuing the IFRS

BC2 Paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* specify a hierarchy of criteria that an entity should use in developing an accounting policy if no IFRS applies specifically to an item. Without the exemption in IFRS 6, an entity adopting IFRSs in 2005 would have needed to assess whether its accounting policies for the exploration for and evaluation of mineral resources complied with those requirements. In the absence of guidance, there might have been uncertainty about what would be acceptable. Establishing what would be acceptable could have been costly and some entities might have made major changes in 2005 followed by further significant changes once the Board completes its comprehensive review of accounting for extractive activities.

BC3 To avoid unnecessary disruption for both users and preparers at this time, the Board proposed to limit the need for entities to change their existing accounting policies for exploration and evaluation assets. The Board did this by:

(a) creating a temporary exemption from parts of the hierarchy in IAS 8 that specify the criteria an entity uses in developing an accounting policy if no IFRS applies specifically.

(b) limiting the impact of that exemption from the hierarchy by identifying expenditures to be included in and excluded from exploration and evaluation assets and requiring all exploration and evaluation assets to be assessed for impairment.

BC4 The Board published its proposals in January 2004. ED 6 *Exploration for and Evaluation of Mineral Resources* had a comment deadline of 16 April 2004. The Board received 55 comment letters.

BC5 In April 2004 the Board approved a research project to be undertaken by staff from the national standard- setters in Australia, Canada, Norway and South Africa that will address accounting for extractive activities generally. 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 securities regulators from around the world.

Scope

BC6 In the Board's view, even though no IFRS has addressed extractive activities directly, all IFRSs (including International Accounting Standards and Interpretations) are applicable to entities engaged in the exploration for and evaluation of mineral resources that make an unreserved statement of compliance with IFRSs in accordance with IAS 1 *Presentation of Financial Statements*. Consequently, each IFRS must be applied by all such entities.

BC7 Some respondents to ED 6 encouraged the Board to develop standards for other stages in the process of exploring for and evaluating mineral resources, including pre- exploration activities (ie activities preceding the exploration for and evaluation of mineral resources) and development activities (ie activities after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable). The Board decided not to do this for two reasons. First, it did not want to prejudge the comprehensive review of the accounting for such activities. Second, the Board concluded that an appropriate accounting policy for pre- exploration activities could be developed from an application of existing IFRSs, from the

Framework's[1] definitions of assets and expenses, and by applying the general principles of asset recognition in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

BC8 The Board also decided not to expand the scope of IFRS 6 beyond that proposed in ED 6 because to do so would require additional due process, possibly including another exposure draft. In view of the many entities engaged in extractive activities that would be required to apply IFRSs from 1 January 2005, the Board decided that it should not delay issuing guidance by expanding the scope of the IFRS beyond the exploration for and evaluation of mineral resources.

Definition of exploration and evaluation assets

BC9 Most respondents to ED 6 agreed with the Board's proposed definition of exploration and evaluation assets, but asked for changes or clarifications to make the Board's intentions clearer:

(a) some respondents asked the Board to distinguish between exploration and pre- exploration expenditures.

(b) others asked the Board to define exploration and evaluation activities separately, reflecting the different risk profiles of such activities or the requirements of other jurisdictions.

(c) other respondents asked for further guidance on what constitute mineral resources, principally examples of what constitutes a mineral reserve.

Expenditures incurred before the exploration for and evaluation of mineral resources

BC10 Respondents seemed to be concerned that the Board was extending the scope of the proposals to include expenditures incurred before the acquisition of legal rights to explore in a specific area in the definition of exploration and evaluation expenditure. Some were concerned that such an extension would open the way for the recognition of such expenditures as assets; others preferred this result. In drafting IFRS 6, the Board could not identify any reason why the *Framework* was not applicable to such expenditures.

BC11 The Board decided not to define pre- acquisition or pre- exploration expenditures. However, the IFRS clarifies that expenditures before the entity has obtained legal rights to explore in a specific area are not exploration and evaluation expenditures and are therefore outside the scope of the IFRS.

BC12 The Board noted that an appropriate application of IFRSs might require pre- acquisition expenditures related to the acquisition of an intangible asset (eg expenditures directly attributable to the acquisition of an exploration licence) to be recognised as part of the intangible asset in accordance with IAS 38. Paragraph 27(a) of IAS 38 states that the cost of a separately acquired intangible asset comprises its purchase price, including import duties and non- refundable purchase taxes, and some directly attributable costs.

BC13 Similarly, the Board understands that expenditures incurred before the exploration for and evaluation of mineral resources cannot usually be associated with any specific mineral property and thus are likely to be recognised as an expense as incurred. However, such expenditures need to be distinguished from expenditures on infrastructure—for example access roads—necessary for the exploration work to proceed. Such expenditures should be recognised as property, plant and equipment in accordance with paragraph 3 of IAS 16.

Separate definitions of 'exploration' and 'evaluation'

BC14 Some respondents asked the Board to provide separate definitions of exploration and evaluation. The Board considered using the definitions provided in the Issues Paper *Extractive Industries* published by its predecessor, the Board of the International Accounting Standards Committee, in November 2000, because those definitions would be acceptable to many respondents, particularly because they are based on definitions that have been used for a number of years in both the mining and the oil and gas sectors.

BC15 The Board concluded that distinguishing between evaluation and exploration would not improve the IFRS. Exploration and evaluation are accounted for in the same way.

[1] References to the *Framework* in this Basis for Conclusions are to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was developed.

Mineral resources

BC16 Some respondents asked the Board to define mineral resources more precisely. The Board concluded that, for the purposes of the IFRS, elaboration was unnecessary. The items listed in the definition of exploration for and evaluation of mineral resources were sufficient to convey the Board's intentions.

Recognition of exploration and evaluation assets

Temporary exemption from IAS 8 paragraphs 11 and 12

BC17 A variety of accounting practices are followed by entities engaged in the exploration for and evaluation of mineral resources. These practices range from deferring on the balance sheet nearly all exploration and evaluation expenditure to recognising all such expenditure in profit or loss as incurred. The IFRS permits these various accounting practices to continue. Given this diversity, some respondents to ED 6 opposed any exemption from paragraphs 11 and 12 of IAS 8. These respondents were concerned that entities could give the appearance of compliance with IFRSs while being inconsistent with the stated objectives of the IASB, ie to provide users of financial statements with financial information that was of high quality, transparent and comparable. The Board did not grant the exemption from parts of IAS 8 lightly, but took this step to minimise disruption, especially in 2006 (or 2005, for those entities that adopt the IFRS early), both for users (eg lack of continuity of trend data) and for preparers (eg systems changes).

BC18 IFRS 4 *Insurance Contracts* provides a temporary exemption from paragraphs 10–12 of IAS 8. That exemption is broader than in IFRS 6 because IFRS 4 leaves many significant aspects of accounting for insurance contracts until phase II of the Board's project on that topic. A requirement to apply paragraph 10 of IAS 8 to insurance contracts would have had much more pervasive effects and insurers would have needed to address matters such as completeness, substance over form and neutrality. In contrast, IFRS 6 leaves a relatively narrow range of issues unaddressed and the Board did not think that an exemption from paragraph 10 of IAS 8 was necessary.

BC19 ED 6 made it clear that the Board intended to suspend only paragraphs 11 and 12 of IAS 8, implying that paragraph 10 should be followed when an entity was determining its accounting policies for exploration and evaluation assets. However, it was apparent from some comments received that the Board's intention had not been understood clearly. Consequently, the IFRS contains a specific statement that complying with paragraph 10 of IAS 8 is mandatory.

BC20 Respondents who objected to the Board's proposal in ED 6 to permit some accounting practices to continue found it difficult to draw a meaningful distinction between the exploration for and evaluation of mineral resources and scientific research. Both activities can be costly and have significant risks of failure. These respondents would support bringing the exploration for and evaluation of mineral resources within the scope of IAS 16 and IAS 38. The Board is similarly concerned that existing accounting practices might result in the inappropriate recognition of exploration and evaluation assets. However, it is also concerned that accounting for exploration and evaluation expenditures in accordance with IAS 38 might result in the overstatement of expenses. In the absence of internationally accepted standards for such expenditures, the Board concluded that it could not make an informed judgement in advance of the comprehensive review of accounting for extractive activities.

BC21 Some suggested that the Board should require an entity to follow its national accounting requirements (ie national GAAP) in accounting for the exploration for and evaluation of mineral resources until the Board completes its comprehensive review of accounting for extractive activities, to prevent the selection of accounting policies that do not form a comprehensive basis of accounting. Consistently with its conclusions in IFRS 4, the Board concluded that defining national GAAP would have posed problems. Further definitional problems could have arisen because some entities do not apply the national GAAP of their own country. For example, some non- US entities with extractive activities in the oil and gas sector apply US GAAP. Moreover, it is unusual and, arguably, beyond the Board's mandate to impose requirements set by another body.

BC22 Therefore, the Board decided that an entity could continue to follow the accounting policies that it was using when it first applied the IFRS's requirements, provided they satisfy the requirements of paragraph 10 of IAS 8 and with some exceptions noted below. An entity could also improve those accounting policies if specified criteria are met (see paragraphs 13 and 14 of the IFRS).

BC23 The Board acknowledges that it is difficult to make piecemeal changes to recognition and measurement practices at this time because many aspects of accounting for extractive activities are interrelated with aspects that will not be considered until the Board completes its comprehensive review of accounting for

extractive activities. However, not imposing the requirements in the IFRS would detract from the relevance and reliability of an entity's financial statements to an unacceptable degree.

BC23A In 2008, as part of its annual improvements project, the Board considered the guidance on the treatment in IAS 7 *Statement of Cash Flows* of some types of expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classify such expenditures as cash flows from operating activities and others classify them as investing activities. Examples of such expenditures are those for exploration and evaluation activities, which can be recognised according to IFRS 6 as either an asset or an expense.[2]

BC23B The Board noted that the exemption in IFRS 6 applies only to recognition and measurement of exploration and evaluation assets, not to the classification of related expenditures in the statement of cash flows. Consequently, the Board amended paragraph 16 of IAS 7 to state that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

Elements of cost of exploration and evaluation assets

BC24 ED 6 paragraph 7 listed examples of expenditures related to the exploration for and evaluation of mineral resources that might be included in the cost of an exploration and evaluation asset. ED 6 paragraph 8 listed expenditures that could not be recognised as an exploration and evaluation asset. Respondents expressed a desire for greater clarity with respect to these paragraphs and more examples of types of expenditures that would be included or excluded.

BC25 In the light of the responses, the Board decided to redraft the guidance to state that the list is not exhaustive and that the items noted are examples of expenditures that might, but need not always, satisfy the definition of exploration and evaluation expenditure. In addition, the Board noted that IFRSs require that expenditures should be treated consistently for comparable activities and between reporting periods. Any change in what is deemed to be an expenditure qualifying for recognition as an exploration and evaluation asset should be treated as a change in an accounting policy accounted for in accordance with IAS 8. Pending the comprehensive review of accounting for extractive activities, the Board does not think that it is feasible to define what expenditures should be included or excluded.

BC26 ED 6 paragraph 8 proposed to prohibit expenditure related to the development of a mineral resource from being recognised as an exploration and evaluation asset. Respondents expressed difficulty identifying expenditures on 'development'. The Board did not define 'development of a mineral resource' because this is beyond the scope of the IFRS.

BC27 However, the Board noted that development of a mineral resource once the technical feasibility and commercial viability of extracting the mineral resource had been determined was an example of the development phase of an internal project. Paragraph 57 of IAS 38 provides guidance that should be followed in developing an accounting policy for this activity.

BC28 ED 6 proposed that administration and other general overhead costs should be excluded from the initial measurement of exploration and evaluation assets. Several respondents suggested that general and administrative and overhead costs *directly attributable* to the exploration and evaluation activities should qualify for inclusion in the carrying amount of the asset. These respondents saw this treatment as consistent with the treatment of such costs with respect to inventory (paragraph 11 of IAS 2 *Inventories*) and intangible assets (paragraph 67(a) of IAS 38). However, the Board noted that such a treatment would seem to be inconsistent with paragraph 19(d) of IAS 16. The IFRS was not regarded as the appropriate Standard in which to resolve this inconsistency, and the Board decided to delete the reference in the IFRS to administrative and other general overheads. The treatment of such expenditures would be an accounting policy choice; the chosen policy should be consistent with one of the treatments available under IFRSs.

Measurement after recognition

BC29 The IFRS permits an entity recognising exploration and evaluation assets to measure such assets, after recognition, using either the cost model or the revaluation model in IAS 16 and IAS 38. The model chosen should be consistent with how the entity classifies the exploration and evaluation assets. Those revaluation models permit the revaluation of assets when specified requirements are met (see paragraphs 31–42 of IAS 16 and paragraphs 72–84 of IAS 38). The revaluation model in IAS 38 can be used only if the asset's fair value can be determined by reference to an active market; the revaluation model in IAS 16 refers only to 'market- based evidence'. The Board was troubled by this inconsistency and was concerned that entities

[2] Paragraphs BC23A and BC23B were added as a consequence of an amendment to IAS 7 included in *Improvements to IFRSs* issued in April 2009.

might choose accounting policies to achieve a more advantageous measurement of exploration and evaluation assets.

BC30 A few respondents were also concerned with the option proposed in ED 6. Some did not agree that exploration and evaluation assets should be revalued, preferring an arbitrary prohibition of remeasurement. Others were concerned about the reliability of the measure. The Board concluded that no substantive reasons had been presented for reaching a conclusion different from that in ED 6. Although the revaluation of an exploration asset in accordance with IAS 16 or IAS 38 might not be widespread, it was not appropriate to prohibit remeasurement of specific types of IAS 16 or IAS 38 assets on a selective basis.

BC31 Exploration and evaluation assets may arise as a result of a business combination. The Board noted that IFRS 3 *Business Combinations* applies to all entities asserting compliance with IFRSs and that any exploration and evaluation assets acquired in a business combination should be accounted for in accordance with IFRS 3.

Presentation of exploration and evaluation assets

BC32 ED 6 noted that the Board had not yet considered whether exploration and evaluation assets are tangible or intangible. Several respondents suggested that the Board should give some direction on this issue.

BC33 Some exploration and evaluation assets are treated as intangible assets (eg drilling rights), whereas others are clearly tangible (eg vehicles and drilling rigs). A tangible asset may be used in the development of an intangible one. For example, a portable drilling rig may be used to drill test wells or take core samples, clearly part of the exploration activity. To the extent that the tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using the drilling rig to develop an intangible asset does not change a tangible asset into an intangible asset.

BC34 Pending completion of the comprehensive review of accounting practices for extractive activities, the Board did not wish to decide whether and which exploration and evaluation assets should be classified as tangible or intangible. However, the Board concluded that an entity should classify the elements of exploration and evaluation assets as tangible or intangible according to their nature and apply this classification consistently. This classification is the foundation for other accounting policy choices as described in paragraphs BC29–BC31 and for the disclosures required by the IFRS.

Impairment of exploration and evaluation assets

BC35 When it developed ED 6, the Board decided that an entity recognising exploration and evaluation assets should test those assets for impairment, and that the impairment test to be applied should be that in IAS 36 *Impairment of Assets*. Respondents accepted the general proposition that exploration and evaluation assets should be tested for impairment. However, the Board's proposals for a special 'cash- generating unit for exploration and evaluation assets' (the special CGU) were not thought appropriate or useful.

Assessment of impairment

BC36 In some cases, and particularly in exploration- only entities, exploration and evaluation assets do not generate cash flows and there is insufficient information about the mineral resources in a specific area for an entity to make reasonable estimates of exploration and evaluation assets' recoverable amount. This is because the exploration for and evaluation of the mineral resources has not reached a stage at which information sufficient to estimate future cash flows is available to the entity. Without such information, it is not possible to estimate either fair value less costs to sell or value in use, the two measures of recoverable amount in IAS 36. Respondents noted that this would lead to an immediate write- off of exploration assets in many cases.

BC37 The Board was persuaded by respondents' arguments that recognising impairment losses on this basis was potentially inconsistent with permitting existing methods of accounting for exploration and evaluation assets to continue. Therefore, pending completion of the comprehensive review of accounting for extractive activities, the Board decided to change the approach to recognition of impairment; the assessment of impairment should be triggered by changes in facts and circumstances. However, it also confirmed that, once an entity had determined that an exploration and evaluation asset was impaired, IAS 36 should be used to measure, present and disclose that impairment in the financial statements, subject to special requirements with respect to the level at which impairment is assessed.

BC38 Paragraph 12 of ED 6 proposed that an entity that had recognised exploration and evaluation assets should assess those assets for impairment annually and recognise any resulting impairment loss in accordance with

IAS 36. Paragraph 13 proposed a set of indicators of impairment that an entity would consider in addition to those in IAS 36. Respondents stated that these indicators would not achieve the Board's intended result, especially in circumstances in which the information necessary for an assessment of mineral reserves was not available.

BC39 The Board replaced the proposals in paragraphs 12 and 13 of ED 6 with an exception to the recognition requirements in IAS 36. The Board decided that, until the entity had sufficient data to determine technical feasibility and commercial viability, exploration and evaluation assets need not be assessed for impairment. However, when such information becomes available, or other facts and circumstances suggest that the asset might be impaired, the exploration and evaluation assets must be assessed for impairment. The IFRS suggests possible indicators of impairment.

The level at which impairment is assessed

BC40 When it developed ED 6, the Board decided that there was a need for consistency between the level at which costs were accumulated and the level at which impairment was assessed. Without this consistency, there was a danger that expenditures that would form part of the cost of an exploration and evaluation asset under one of the common methods of accounting for the exploration for and evaluation of mineral resources would need to be recognised in profit or loss in accordance with IAS 36. Consequently, ED 6 proposed that an entity recognising exploration and evaluation assets should make a one- time election to test those assets either at the level of the IAS 36 cash- generating unit (CGU) or at the level of a special CGU. ED 6 explained that any assets other than exploration and evaluation assets included within the special CGU should continue to be subject to separate impairment testing in accordance with IAS 36, and that impairment test should be performed before the special CGU was tested for impairment.

BC41 Respondents disagreed with the Board's proposal. In particular, and for various reasons, they did not accept that the special CGU would provide the relief it was intended to provide, because:

(a) small, start- up or exploration- only entities might not have adequate cash flows to support exploration and evaluation assets that were not cash- generating.

(b) entities applying the successful efforts method of accounting typically conduct impairment tests property by property. However, because of the way in which the special CGU was defined in ED 6 such entities would be forced to carry out impairment tests at the CGU level.

(c) the special CGU permitted management extensive discretion.

In addition, there was concern that, because the exploration and evaluation assets could be aggregated with other assets in the special CGU, there would be confusion about the appropriate measurement model to apply (fair value less costs to sell or value in use). As a result, many respondents to ED 6 did not think that the Board had achieved its intention in this respect, and said that they preferred to apply IAS 36 without the special CGU.

BC42 Although the Board disagreed with some of the arguments put forward by respondents, it acknowledged that the special CGU seemed to be more confusing than helpful. This suggested that it was not needed. Paragraph BC20 of the Basis for Conclusions on ED 6 noted the Board's reluctance to introduce a special CGU. Removing the special CGU would eliminate much of the complexity in the proposed IFRS and the confusion among constituents. It would also mean that entities with extractive activities would assess their assets for impairment at the same level as other entities—providing a higher level of comparability than might otherwise be the case.

BC43 Board members noted that paragraph 22 of IAS 36 requires impairment to be assessed at the individual asset level 'unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets'. In addition, paragraph 70 of IAS 36 requires that 'if an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash- generating unit'. In some cases in which exploration and evaluation assets are recognised, eg in the petroleum sector, each well is potentially capable of producing cash inflows that are observable and capable of reliable measurement because there is an active market for crude oil. The Board was concerned that removing the special CGU would cause entities recognising exploration and evaluation assets to test for impairment at a very low level.

BC44 The issue was highlighted in the July 2004 issue of *IASB Update*, in the project summary and in the *Effect of Redeliberations* documents available on the IASB's Website. These documents were also sent to the Board's research project team and others with a request to encourage their constituents to respond to the issues raised. The Board received 16 comment letters.

BC45 The majority of respondents continued to support the elimination of the special CGU. They also supported the notion that entities should test impairment at the level of the cost centre and suggested that the Board

should consider defining an 'asset' as it applied to exploration and evaluation assets. The respondents argued that such an approach would reflect more accurately the way in which the industry manages its operations. The Board was persuaded by these arguments and decided that it should permit entities some flexibility in allocating exploration and evaluation assets to cash- generating units or groups of units, subject to an upper limit on the size of the units or groups of units.

BC46 The Board decided that its approach to the impairment of goodwill in the 2004 revisions to IAS 36 paragraphs 80–82 offered the best model available within IFRSs to accomplish its objective. It noted that entities might be able to monitor exploration and evaluation assets for internal management purposes at the level of an oilfield or a contiguous ore body. The Board did not intend to require impairment to be assessed at such a low level. Consequently, the IFRS permits CGUs to be aggregated. However, the Board decided to require the level at which impairment was assessed to be no larger than a segment, based on either the entity's primary or the entity's secondary segment reporting format in accordance with IAS 14 *Segment Reporting*. The Board concluded, consistently with the approach to goodwill in IAS 36, that this approach was necessary to ensure that entities managed on a matrix basis could test exploration and evaluation assets for impairment at the level of reporting that reflects the way they manage their operations. This requirement is no less rigorous than ED 6's requirement that the special CGU should 'be no larger than a segment'.[3]

BC47 Consequently, the Board decided to remove the proposed special CGU. In doing so, it noted that eliminating this requirement would have the following benefits:

(a) once an impairment was identified, the measurement, presentation and disclosure of impairment would be more consistent across entities recognising exploration and evaluation assets.

(b) it would remove the confusion about what practices entities recognising exploration and evaluation assets for the first time should follow.

(c) it would remove the risk noted in some comment letters that the special CGU could become the 'industry norm', limiting the Board's options when the comprehensive review of accounting for extractive activities is completed.

Reversal of impairment losses

BC48 The reversal of impairment losses when specified requirements (ie those set out in paragraphs 109–123 of IAS 36) are met is required of all entities for all assets (excluding goodwill and equity investments classified as available for sale). Respondents to ED 6 who commented on this issue and who disagreed with the ability to reverse impairment losses advanced no new arguments why the Board should prohibit reversal of impairment losses in the case of exploration and evaluation assets. Consequently, the Board reaffirmed its conclusion that it would not be appropriate to propose an exemption from the requirement to reverse impairment losses for exploration and evaluation assets.

Changes in accounting policies

BC49 IAS 8 prohibits a change in accounting policies that is not required by an IFRS, unless the change will result in the provision of reliable and more relevant information. Although the Board wished to avoid imposing unnecessary changes in this IFRS, it did not believe it should exempt entities from the requirement to justify changes in accounting policies. Consistently with its conclusions in IFRS 4, the Board decided to permit changes in accounting policies for exploration and evaluation assets if they make the financial statements more relevant and no less reliable, or more reliable and no less relevant judged by the criteria in IAS 8.

Disclosures

BC50 The disclosure requirements in the IFRS are based on a principle that an entity should disclose information that identifies and explains the amounts recognised in its financial statements that arise from the exploration for and evaluation of mineral resources, supplemented by specified disclosures to meet that objective.

BC51 Although respondents agreed that entities should be allowed flexibility in determining the levels of aggregation and amount of disclosure, they suggested that the Board should introduce more specific and standardised disclosure requirements. Some respondents were concerned that the variety of accounting for the exploration for and evaluation of mineral resources could reduce comparability.

[3] In 2006 IAS 14 was replaced by IFRS 8 *Operating Segments*, which does not require the identification of primary and secondary segments. See paragraph BC150A of the Basis for Conclusions on IAS 36 *Impairment of Assets*.

BC52 The Board concluded that the ED 6 approach was superior to requiring a long list of detailed and prescriptive disclosures because concentrating on the underlying principle:

(a) makes it easier for entities to understand the rationale for the requirements, which promotes compliance.

(b) avoids requiring specific disclosures that may not be needed to meet the underlying objectives in the circumstances of every entity and could lead to information overload that obscures important information in a mass of detail.

(c) gives entities flexibility to decide on an appropriate level of aggregation that enables users to see the overall picture, but without combining information that has different characteristics.

(d) permits reporting exploration and evaluation expenditure by segment on either an annual basis or an accumulated basis.

BC53 Some respondents suggested that the Board should require disclosures similar to those in paragraphs 73 and 74 of IAS 16 or in paragraphs 118–125 of IAS 38. Both IAS 16 and IAS 38 contain scope exclusions for exploration and evaluation assets. Therefore, entities recognising these assets could claim that the requirements were not applicable. The Board decided that, although the scope of those standards excludes exploration and evaluation assets, their required disclosures would provide information relevant to an understanding of the financial statements and useful to users. Consequently, the Board concluded that the IFRS should confirm that the disclosures of IASs 16 and 38 are required consistently with how the entity classifies its exploration and evaluation assets (ie tangible (IAS 16) or intangible (IAS 38)).

BC54 In addition, some respondents suggested that the Board should require disclosure of non- financial information, including:

(a) commercial reserve quantities;

(b) rights to explore for, develop and produce wasting resources;

(c) disclosures about stages after exploration and evaluation; and

(d) the number of years since exploration started, and an estimation of the time remaining until a decision could be made about the technical feasibility and commercial viability of extracting the mineral resource.

Commercial reserves

BC55 The Board acknowledged that information about commercial reserve quantities is, perhaps, the most important disclosure for an entity with extractive activities. However, it noted that commercial reserves are usually determined after the exploration and evaluation stage has ended and it concluded that such disclosure was beyond the stated scope of the IFRS.

Stages after exploration and evaluation

BC56 As with commercial reserves, the Board concluded that, although information about stages after exploration and evaluation would be useful to users of financial statements, such disclosure is beyond the scope of the IFRS.

Project timing

BC57 The Board also concluded that disclosure of the number of years since exploration started and the estimated time remaining until a decision could be made about development would apply only to large scale exploration activities. It noted that if the project is significant, paragraph 112(c) of IAS 1 already requires its disclosure, ie as additional information that is necessary for an understanding of the financial statements.

Effective date

BC58 ED 6 proposed that the IFRS should be effective for annual periods beginning on or after 1 January 2005. The Board decided to change the effective date to 1 January 2006 to allow entities more time to make the transition to the IFRS. It also decided to permit an entity that wishes or is required to adopt IFRSs before 1 January 2006 to adopt IFRS 6 early.

Transition

BC59 The Board did not propose any special transition in ED 6. Consequently, paragraphs 14–27 of IAS 8 would apply to any changes in accounting that are necessary as a result of the IFRS.

BC60 Some respondents expressed concern about the application of the proposals to prior periods—especially those related to impairment and the inclusion or exclusion of some expenditures from exploration and evaluation assets. In particular, respondents requested that if the Board were to require restatement, it should give transitional guidance on how to identify elements previously recognised as exploration and evaluation assets now outside the definition.

BC61 IAS 8 would require entities recognising exploration and evaluation assets to determine whether there were any facts and circumstances indicating impairment in prior periods. The Board concluded that retrospective application was not likely to involve the use of hindsight because the facts and circumstances identified in the IFRS are generally objective indicators and whether they existed at a particular date should be a question of fact. However, the Board noted that it provided transitional relief in IFRS 4 for applying the liability adequacy test to comparative periods on the basis of impracticability, principally because the liability adequacy test involves the use of current estimates of future cash flows from an entity's insurance contracts. The Board does not expect that IFRS 6's approach to impairment will involve current estimates of future cash flows and other variables to the same extent. However, it is aware that the variety of approaches to assessing recoverability means that current estimates of future cash flows and other variables are likely to be in use by some entities.

BC62 Therefore, consistently with IFRS 4, the Board concluded that if it is impracticable to apply the impairment test to comparative information that relates to annual periods beginning before 1 January 2006, an entity should disclose that fact.

BC63 Some respondents were concerned that entities would have difficulty in compiling the information necessary for 2004 comparative figures, and suggested that entities should be exempted from restating comparatives on transition, given that the IFRS would be introduced close to 1 January 2005, and could result in substantial changes.

BC64 The Board considered a similar issue when it developed ED 7 *Financial Instruments: Disclosures*, in which it concluded that entities that apply the requirements proposed in ED 7 only when they become mandatory should be required to provide comparative disclosures because such entities will have enough time to prepare the information.

BC65 In ED 7, the Board decided to propose that an entity that both (a) adopts IFRSs for the first time before 1 January 2006 and (b) applies the IFRS before that date should be exempt from the requirement to produce comparative information in the first year of application. The Board compared the concerns raised by constituents in response to ED 6 and the issues it considered in developing ED 7 and decided that its conclusions in ED 7 were also appropriate for the IFRS.

BC65A [Deleted][4]

Summary of changes from ED 6

BC66 The following is a summary of the main changes from ED 6 to the IFRS. The Board:

(a) deleted the specific prohibition against including administration and other general overhead costs in the initial measurement of an exploration and evaluation asset (paragraph BC28).

(b) introduced a requirement for the entity to classify exploration and evaluation assets as either tangible or intangible according to the nature of the asset acquired and to apply this classification consistently (paragraphs BC32–BC34).

(c) amended the impairment principle so that an impairment is recognised on the basis of an assessment of facts and circumstances and measured, presented and disclosed in accordance with IAS 36, subject to the modification of the level at which the impairment is assessed (paragraphs BC36–BC39).

(d) deleted the indicators of impairment proposed in ED 6 and replaced them with examples of facts and circumstances that would suggest that an exploration and evaluation asset was impaired (paragraphs BC36–BC39).

[4] Paragraph BC65A was deleted as a result of revisions to IFRS 1 *First- time Adoption of International Financial Reporting Standards* in November 2008 as it was no longer applicable.

(e) deleted the special cash- generating unit for exploration and evaluation assets and instead required that the entity determine an accounting policy for allocating exploration and evaluation assets to a cash- generating unit or units for the purpose of the impairment test (paragraphs BC40–BC47).

(f) amended the effective date of the IFRS so that the IFRS is effective for annual periods beginning on or after 1 January 2006 (paragraph BC58).

(g) provided transitional relief for entities adopting IFRSs for the first time and adopting the IFRS before 1 January 2006 (paragraphs BC59–BC65).

Amended reference to the *Conceptual Framework*

BC67 Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*), the Board issued *Amendments to References to the Conceptual Framework in IFRS Standards*. In IFRS 6, that document replaced a reference in paragraph 10 to the *Framework* with a reference to the 2018 *Conceptual Framework*. The Board does not expect that replacement to have a significant effect on the application of the Standard for the following reasons:

(a) The Board does not expect the application of the revised definition of an asset, together with the revised recognition criteria, to lead to significant changes in practice for entities that applied the *Framework* when developing their accounting policies for recognition of assets arising from development of mineral resources. Although the Board replaced the probability and reliability recognition criteria with recognition criteria based on the qualitative characteristics of useful financial information, the 2018 *Conceptual Framework* specifies low probability of an inflow or outflow of economic benefits and measurement uncertainty as factors to be considered in decisions about recognition.

(b) Entities that apply IAS 38 to develop their accounting policies for recognition of assets arising from development of mineral resources will not be affected by the amendment of the reference to the *Framework* in IFRS 6.

Dissenting opinions

Dissent of Robert P Garnett, James J Leisenring, Warren J McGregor and John T Smith

DO1 Messrs Garnett, Leisenring, McGregor and Smith dissent from the issue of IFRS 6.

DO2 These four Board members dissent because they would not permit entities the alternative of continuing their existing accounting treatment for exploration and evaluation assets. In particular, they believe that all entities should be required to apply paragraphs 11 and 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when developing an accounting policy for exploration and evaluation assets. These Board members believe that the requirements in IAS 8 have particular relevance and applicability when an IFRS lacks specificities, as is the case for entities recognising exploration and evaluation assets. This is especially true because the IFRS allows the continuation of a variety of measurement bases for these items and, because of the failure to consider the *Framework*,[5] may result in the inappropriate recognition of assets. In the view of these Board members, if an entity cannot meet those requirements, it should not be allowed to describe its financial statements as being in accordance with International Financial Reporting Standards.

DO3 Messrs Garnett and McGregor also disagree with the modifications to the requirements of IAS 36 for the purpose of assessing exploration and evaluation assets for impairment contained in paragraphs 18–22 of the IFRS. They think that the requirements of IAS 36 should be applied in their entirety to exploration and evaluation assets. Failure to do so could result in exploration and evaluation assets continuing to be carried forward when such assets are not known to be recoverable. This could result in the exclusion of relevant information from the financial statements because of the failure to recognise impairment losses on a timely basis and the inclusion of unreliable information because of the inclusion of assets that do not faithfully represent the transactions and other events that they purport to represent.

DO4 The four Board members' concerns are heightened by the absence as yet from the Board's main agenda of a project on accounting for exploration for and evaluation of mineral resources generally. Although a research project has begun, it is unlikely that the Board will be able to develop financial reporting standards in the medium term. Accordingly, it is likely that the concession referred to in paragraph DO2 and, in Messrs Garnett and McGregor's cases, in paragraph DO3, will remain in place for some time.

[5] The reference to the *Framework* is to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was developed.

