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Chairman

JH

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IASB
30 Cannon Street
LONDON EC4M 6XH
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Dear Sir or Madam,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the Discussion Paper on extractive industries.

From a work program perspective, the ANC reminds you that there are several more urgent projects to take forward in the short term.

Regarding the content of the discussion paper, we are of the view that the research conducted has failed to demonstrate that the current accounting framework and standards are not appropriate for the extractive industries ; and that the discussion paper does not investigate the possibility of expanding the existing application guidance to address the specific issues of these industries.

Should the IASB however proceed with this project, the ANC considers that the relevant methodology should first be to assess and explain the problems raised by the application of current IFRSs. Therefore, unlike the approach taken by the project team, the IASB should not attempt to create a new model before analysing current accounting practices which, regarding the oil and gas activities, are largely based on US Gaap.

Along these comments on methodology, we would like to express our concerns regarding the proposals for the recognition and the impairment of an asset. The discussion paper proposes that expenditures incurred after the acquisition of a legal right should be systematically recognised as an asset. The underlying principle of this requirement is that such subsequent expenditures give more information on the legal right acquired and therefore enhance its value. In our view, additional information is not a sufficient criterion to recognise an asset nor increase it. We are also concerned that the “probability of economic benefits” part of the definition of an asset is ignored at the stage of initial recognition.

The discussion paper also indicates that, in many instances, it is not possible to make any judgements that the carrying amount of an exploration property would be greater than its recoverable amount. The project team proposes that the IAS 36 requirements should not apply to extractive industries and that therefore, management would be required:

- To write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and
- To apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

We think that this is an inappropriate model, which postpones unduly the recognition of impairment as it requires the probability that the asset is not recoverable to be high. This model may also result in less comparable information, as no details are given regarding the separate set of indicators to be applied leading to similar situations being judged differently.

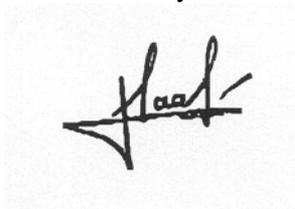
Regarding the proposed disclosures, we think that the research conducted by the project team is interesting but should be completed by a more extensive analysis to conclude on the more appropriate placement of the information related to quantities of reserve (in or out of the notes to financial statements). More insight on how users may use this information would also be very useful in this respect.

Finally, we do not agree with the discussion paper proposal regarding disclosure of the current value of reserves. We would suggest maintaining the consistency with the rationale that lead the project team not to recommend a current value measurement for the assets in the balance sheet.

Our detailed answers to the discussion paper's questions are set out in the appendix I.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Haas', is written over a light grey rectangular background.

Jérôme HAAS

Appendix I

Detailed comments

Question 1

In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas. Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

In our view, the central question is not whether other similar activities should fall within the scope of an IFRS for extractive activities but rather to assess if a specific IFRS is needed for the main extractive activities.

IFRS 6 is clearly a transitory standard that includes exemptions from other existing IFRSs and allows for significant flexibility in the choice of accounting policies whether related to the recognition of expenditures as assets or to the assessment of impairment.

Therefore, in the context of a fundamental review of IFRS 6, it would be useful to perform an analysis of existing IFRS standards and identify the areas where specific features of the extractive industries are not properly addressed. Based on such analysis, it would be easier to identify whether either a new specific standard is needed or some amendments of standards and expanded application guidance could provide a relevant solution. In this respect, an overview of current accounting practices may be useful for new proposals. This may include a review of US GAAP literature as much as it is widely applied by the oil and gas industry.

Should the need of a specific standard be confirmed, we are of the view that any exclusion of the scope regarding similar activities should be justified. Regarding the discussion paper section on the scope, we think that the scoping out of the production of geothermal energy and the extraction of minerals from seawater is not sufficiently explained.

Question 2

Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

As indicated above, the discussion paper has not sufficiently explained why an activity-specific standard is needed. Before any conclusion in favour of a single accounting and disclosure model for both industries is reached, the project should identify the similarities and differences of both industries, and between these industries and other industries. The project should then address the common accounting issues that are not appropriately addressed by current standards.

Question 3

In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree? If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

We acknowledge that information about reserves and resources are important information in the extractive industries and understand that the project team proposal aims to support definitions that are widely used by the industries.

However, even if the CRIRSCO and SPE definitions may currently benefit from a wide acceptance within the extractive industries, they are not suited for an accounting standard setting as expected from the IASB because they comprise too much geological technical features and are largely beyond general principles. IFRSs are conceived to be an independent set of standards and in this respect it is not desirable that some of its requirements refer explicitly to guidance developed elsewhere.

This is the reason why we favour principle-based definitions developed by the IASB which does not prevent the IASB from drawing on the work already done by the CRIRSCO and SPE.

In practice and for implementation purposes, it would be up to management to select industry developed guidance to the extent that it is consistent with the IASB definitions.

Question 4

In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a 'minerals or oil and gas property'. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights. Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised and when should they be recognised initially?

We are concerned about several proposals of the discussion paper regarding the recognition of upstream expenditures as an asset. Our main comments are the following:

The discussion paper refers to both the current framework and to recent projects of the IASB which include the probability assessments in the measurement of an asset or liability rather than determining whether that asset or liability should be recognised. Regarding this issue, we are strongly opposed to the shift of the probability assessment from the recognition phase to the measurement phase.

We understand the continuum asset as a concept that permits to systematically recognise post legal rights expenditures as a component of the legal right asset. In this respect, we remind the IASB that in other industries, expenditures on research activities are recognised as an expense when incurred and an intangible asset arises only from development activities and to the extent that several conditions are fulfilled. These general principles are the opposite of the systematic allocation of expenditure to a legal right proposed by the project team.

We are also not convinced that the costs resulting in additional information about the potential of the legal right correspond to an enhancement of the legal right that should increase its value. For instance, the additional information obtained may be unfavourable at a certain point in time but afterwards it may be either more favourable or less favourable. Therefore, it is difficult to equate the reduction of the uncertainty to an increase of the legal right value.

In summary, we think that the discussion paper proposals lead to recognise subsequent expenditures too early as assets which make more crucial the issue of impairment. We are thus opposed to such an approach which systematically qualifies such subsequent expenditures as assets in their own rights. We would favour an approach where the probability of future economic benefits is a criterion for the initial recognition within assets as per the current framework asset definition.

Question 5

Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team's view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The project team's view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

The discussion paper does not elaborate on the reasons for which the concept of unit of account is necessary in the context of extractive industries. We do not understand either where its practical consequences stand. More details would have been useful to explain for example the consequences of the change in the boundaries of a unit of account as exploration progresses and to explain how the IAS 16 component approach would continue to apply.

Beyond these comments, we would favour that such concept be dealt within a larger project as we see no reason to address it only within the boundaries of a specific industry.

Question 6

Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties. The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information.

The project team's view is that these assets should be measured at historical cost but that detailed disclosure about the entity's minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

We do not agree with the project team's assumptions according to which fair value is more consistent with the objective of providing financial information.

Fair value and current value measurement have not been retained by the project team in their final proposal due to the uncertainty associated with many of the required inputs. We do not think that the degree of certainty in the fair value or current value measurement is the only criteria to choose the measurement attribute for operating assets. Should the IASB add the extractive industries project to its agenda, we would remind it that a current value or fair value measurement requirement for assets would not be relevant since not justified by the business model of these industries. It would not be consistent either with the requirements for non-financial assets in most other industries.

In summary, we do not agree that historical cost should be required based on a "least harm" assessment. On the contrary, we are of the view that amortised cost is the most suitable attribute for measuring operating assets of the extractive industries.

Question 7

Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 Impairment of Assets. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties, management should:

(a) write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and (b) apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

Do you agree with the project team's recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

The discussion paper indicates that until sufficient information is available to evaluate the exploration results and reach a conclusion on whether economically recoverable quantities of mineral or oil and gas have been found, it is not possible to make any judgements that the carrying amount of an exploration property (ie the cost of the exploration rights and any subsequent exploration and evaluation activities) would be less than its recoverable amount. The project team proposes that the IAS 36 requirements should not apply to extractive industries. Therefore, management would be required:

- To write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and
- To apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

We think that the difficulties to assess the recoverable amount of the properties as identified by the project team are largely a consequence of capitalising expenditures without applying the "probability of economic benefits" criteria.

We also think the proposed model postpones unduly the recognition of impairment as it requires the probability that the asset is not recoverable to be high. This model may also result in less comparable information, as no details are given regarding the separate set of indicators to be applied leading to similar situations being judged differently.

We would then recommend stricter criteria to be applied for the initial recognition as an asset and industry-specific clarification or guidance be provided to apply the existing main principles of IAS 36. In this respect, the amendment of IAS 36 may include a list of indicators of impairment, a guidance to determine the level at which the impairment should be performed, and also illustrative examples.

Question 8

In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:

- (a) the value attributable to an entity's minerals or oil and gas properties;*
- (b) the contribution of those assets to current period financial performance; and*
- (c) the nature and extent of risks and uncertainties associated with those assets.*

Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

We do not have comments regarding these general objectives.

Question 9

Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:

- (a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;*
- (b) the main assumptions used in estimating reserves quantities, and a sensitivity analysis;*
- (c) a reconciliation of changes in the estimate of reserves quantities from year to year;*
- (d) a current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;*
- (e) separate identification of production revenues by commodity; and*
- (f) separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).*

Would disclosure of this information be relevant and sufficient for users? Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

In our view, the proposed disclosures are too voluminous and in some cases not relevant. We would therefore suggest that any new project undertaken by the IASB regarding the extractive industries better assess the costs and benefits of the required disclosures.

Our first main concern about the project team proposals is related to quantities of proved reserves and proved plus probable reserves. Our main comments are stated below:

- The discussion paper has not sufficiently explained the rationale for disclosing both proved and probable reserve quantities in the notes of financial statements.
- In practice, this information is generally provided in the annual reports but outside the financial statements and in many jurisdictions reserve data are available in regulatory filings.
- In the meantime, it is true that information about quantities is used to determine several accounting data such as depreciation, impairment or decommissioning provision.
- The informative value of proved and probable reserves is quite different. We are of the view that probable reserve quantities are more relevant information for management purposes and that there is little if any similar data disclosed by entities operating in other industries. For instance, neither the production capacity of an industrial entity nor the potential backlog of customer orders are required to be disclosed in the notes to financial statements. Moreover, adding proved and probable reserve quantities may lead to a non relevant figure as both data have different natures.
- Information about quantities is partly based on management's assumptions regarding the commodity price. Therefore, disclosed quantities are not useful if users have no insight on the price assumptions.
- All these observations argue in favour of a more extensive analysis of the placement of the information related to quantities of reserve (in or out of the notes) and on how users may use this information.

Our second main concern relates to the discussion paper proposal that entities should disclose a current value of their reserves. We think that there is no use, in the notes to financial statements, for a measurement attribute that has been qualified as unreliable or not relevant for items recognised in the balance sheet. Further, the project team's proposals may also create a comparability issue due to the importance of management assumptions.

Question 10

Chapter 6 discusses the disclosure proposals put forward by the Publish What You Pay coalition of non-governmental organisations. The project team's research found that the disclosure of payments made to governments provides information that would be of use to capital providers in making their investment and lending decisions. It also found that providing information on some categories of payments to governments might be difficult (and costly) for some entities, depending on the type of payment and their internal information systems. In your view, is a requirement to disclose, in the notes to the financial statement, the payments made by an entity to governments on a country-by-country basis justifiable on cost-benefit grounds? In your response, please identify the benefits and the costs associated with the disclosure of payments to governments on a country-by-country basis.

The disclosures required by the Publish What You Pay coalition are certainly useful for some interested parties. It merits deep and thorough analysis and response.

It obviously raises interesting accounting issues, which may not be fully and/or satisfactorily dealt with in the current IASB context. Such issues relate for example to the objectives of financial statements and to the diversity of users of financial statements and their needs. Also significant is the question of whether it is useful for financial purposes to break down information at a level as detailed as the level of each jurisdiction, which relates to questions pertaining to the link between accounting and legal obligations. Therefore, we think that it is worth investigating further such fundamental questions and notably have the debate about the users of financial statements.

It must be recalled that the discussion paper unusually only raises the question of whether the subject matter should be addressed by the IASB meaning in any case a long debate ahead of us.

At this stage, proper response to the coalition requests should lead to define where relevant information could be best placed, in the most suitable and useful way. This should be made, bearing in mind that anyway not all jurisdictions, by far, apply IFRSs, but that in reality, globally, financial information results from a combination of various legal requirements dealing with many specific areas.