

**FORUM OF GOVERNMENTAL  
ACCOUNTING OF LATIN  
AMERICA - FOCAL**



**COMMENTS TO EXPOSURE DRAFT 86,  
*EXPLORATION FOR AND EVALUATION OF  
MINERAL RESOURCES***

**MAY 2024**

San Salvador, May 29, 2024.

**Subject:** Comments from the member countries of the FORUM OF GOVERNMENTAL ACCOUNTING OF LATIN AMERICA (FOCAL), to Exposure Draft 86, *Exploration for and Evaluation of Mineral Resources*.

**Mr. Ian Carruthers**



Chairman of the International Public Sector Accounting Standards Board (IPSASB)

Dear Mr. Carruthers,

I extend cordial greetings and thanks for the technical support of the IPSASB towards FOCAL on the different topics of Public Accounting.

In this sense, I present for your consideration the comments of the member countries of the Forum of Governmental Accounting of Latin America (FOCAL), to Exposure Draft 86, *Exploration for and Evaluation of Mineral Resources*. With these actions, FOCAL continues to strengthen joint work with the IPSASB, providing the experience of each country in the application of Public Sector Accounting regulations.

Sincerely,





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General Director of Public Accounting  
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## Comments to Exposure Draft 86, *Exploration for and Evaluation of Mineral Resources*


EXPOSURE DRAFT 86, <i>EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES</i>	
SPECIFIC MATTER	COMMENTS
<p>Aligned with IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>.</p> <p><u>Specific Matter for Comment 1:</u></p> <p>The IPSASB decided to propose an IFRS 6-aligned Standard in ED 86 (see paragraphs BC2–BC7). Do you agree that amendments to IFRS 6, for the public sector, are limited to terminology and other IPSASB- specific formatting and consistency amendments (see paragraph BC8)?</p> <p>If not, please explain your reasons, stating clearly what further amendments are necessary and why.</p>	<p><b><u>Ecuador</u></b></p> <p><u>We agree</u></p> <p>Indeed, Exposure Draft 86, <i>Exploration for and evaluation of mineral resources</i>, is developed in accordance with IFRS 6.</p> <p>The exposure draft 86 includes concepts such as recognition, measurement, cost elements, changes in accounting policies, presentation, reclassification, impairment, among other aspects, which were adapted to the public sector, in addition to the key terminology for a better understanding and proper application in the economic facts that reflect useful and reliable financial information to the users of the financial statements.</p> <p><b><u>El Salvador</u></b></p> <p>Yes, we agree that the amendments to IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>, for the public sector, should be limited to terminology and other IPSASB specific formatting and consistency amendments, because this achieves harmonization with the format of the rest of IPSAS, in addition, this exposure draft is very important because it provides the accounting criteria to be followed for the recognition, measurement, presentation and disclosure of Mineral Resource Exploration and Evaluation costs, especially for those jurisdictions that perform these practices, which were not covered by any other IPSAS.</p> <p><b><u>Guatemala</u></b></p> <p>Yes, we agree, since the terminology used is considered adequate for operations. However, we suggest incorporating guidelines to facilitate the understanding of the recording of expenses, exploration and evaluation assets, such as intangibles and illustrative examples.</p>


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	<p><b><u>Mexico</u></b></p> <p>OK</p> <p>It is considered reasonable to align the requirements with IFRS 6 “Exploration for and evaluation of mineral resources”, since both documents correspond to operations with similar characteristics.</p> <p><b><u>Venezuela</u></b></p> <p>The Focal Study Group - Venezuela agrees with the issuance of this Exposure Draft because of the lack of equivalent requirements in IPSAS for prescribing the accounting treatment and choice of accounting policy for the accounting of costs incurred in the exploration for and evaluation of mineral resources, considering the selection of an accounting policy that specifies the expenditures to be recognized as exploration and evaluation assets and to provide specific guidance on financial reporting requirements, which will result in the proper recognition, measurement and presentation of exploration and evaluation assets. .</p> <p>There is full agreement on the exposure draft IPSAS (ED 86), Exploration for and evaluation of mineral resources, considering that the terminology used in the exposure draft allows for a better understanding compared to IFRS 6; however, the term impairment used in IFRS 6 is considered more appropriate than that of Disability used in ED 86, unless it is a translation problem.</p> <p>Then, proposing a Standard aligned with IFRS 6 in the Exposure Draft 86, with minor terminological changes is feasible for the public sector, since:</p> <ul style="list-style-type: none"> <li>• Relevance: mineral resource exploration and evaluation is addressed, relevant to our country.</li> <li>• Comprehensibility: Changes such as “historical cost model” and “present value model” can improve clarity without altering the meaning.</li> <li>• Consistency: Maintains consistency with international standards.</li> <li>• Specific Guidance: Addresses the lack of specific guidance in IPSAS on mine exploration and evaluation.</li> </ul> <p>In view of the above, we believe that implementing these changes with training and consultation will ensure their applicability and understanding.</p>

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	<p><b><u>Colombia</u></b></p> <p>No, the change in terminology is not sufficient to adapt the standard to the public sector.</p> <p>We consider that the exposure draft doesn't consider all the particular aspects of the public sector. IFRS 6 is intended for companies engaged in commercial exploitation that require licenses to carry out exploration and evaluation activities of mineral resources, and not for government entities that have this legal or constitutional mandate for other purposes.</p> <p>Also, inconsistencies are observed between the exposure draft and the IPSASB guidelines of the IPSAS Conceptual Framework, including: the definition of mineral resource exploration and evaluation assets as an expense; stating the classification of qualitative characteristics, when the IPSASB considers them equally important; inconsistency between the guidelines for the definition of which elements are part of the cost; doubts as to whether impairment indicators are impairment loss or whether they are criteria for derecognition of assets; and lack of clarity on how the reclassification of assets should be made when the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.</p>
	<p><b><u>Additional Comments Colombia</u></b></p> <p>In Colombia there are no government entities engaged in the exploitation of mineral resources. This activity is carried out by public or private sector companies created for this purpose, which don't apply IPSAS.</p> <p>For the exploration and evaluation of mineral resources, there are two government entities, the National Hydrocarbons Agency (ANH) and the National Mining Agency (ANM), which carry out these activities to comply with the constitutional mandate to know the hydrocarbon and mining potential of the country. These entities don't carry out exploration and evaluation activities of mineral resources for commercial exploitation purposes, but as part of the Nation's mission to grant rights to exploit non-renewable natural resources, so they are oriented to the execution of projects with a view to generating royalties. Royalties are the economic consideration received by the State for the exploitation of a non-renewable natural resource.</p>

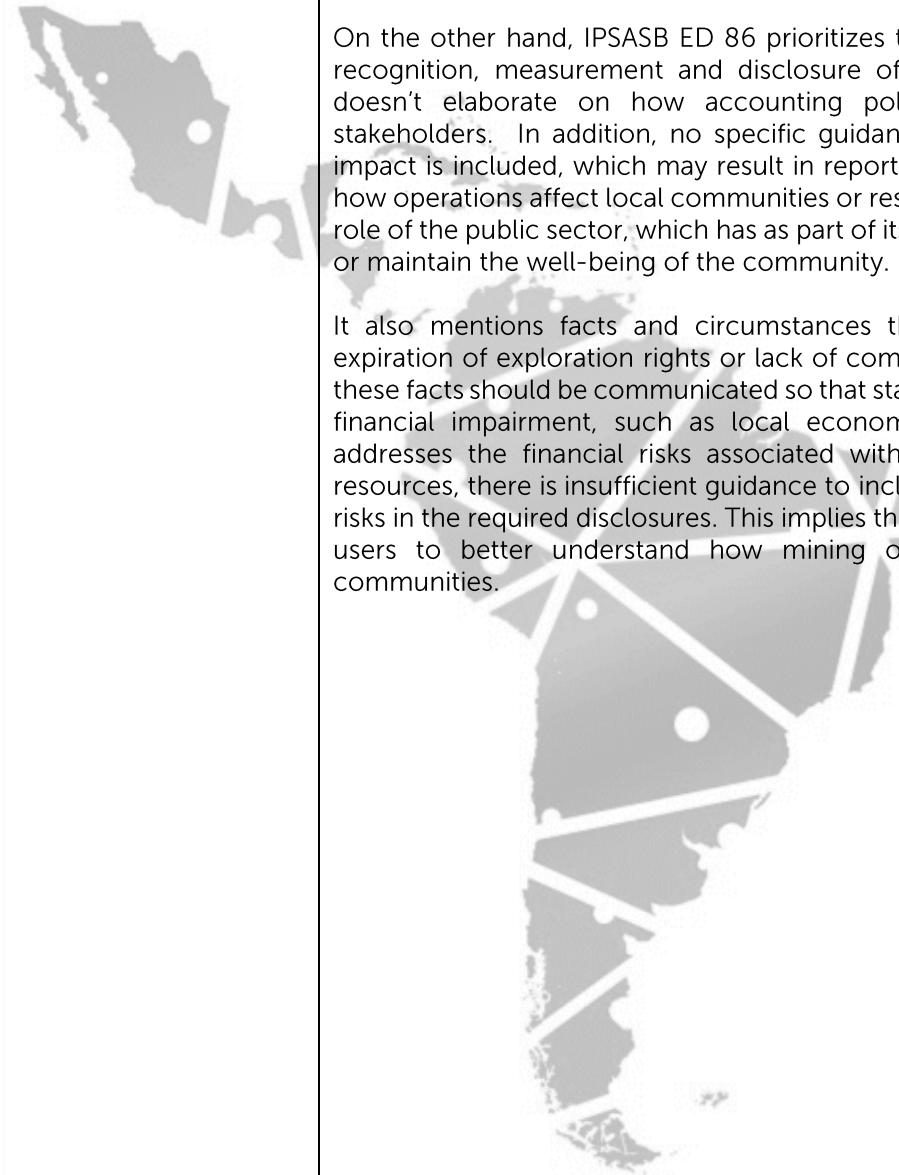


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	<p>The Regulatory Framework for Government Entities of the Colombian Public Accounting Regime contains the Non-Renewable Natural Resources Standard, which establishes that proven reserves of tangible resources that, due to their properties, are found in nature without having been subject to transformation and that are not susceptible to being reproduced or replaced by others of similar characteristics, are recognized as non-renewable natural resources. The Standard also states that these resources shall be measured at the net present value of the future economic benefits expected to be received as royalties from the exploitation of the resource. Thus, consistent with the preceding paragraph, the recognition of proven reserves is in line with the future generation of royalties and their measurement is not at market values.</p> <p>Thus, we consider that the exposure draft doesn't contemplate all the particular aspects of the public sector. IFRS 6 is intended for companies engaged in commercial exploitation that require licenses to carry out exploration and evaluation activities of mineral resources, and not for government entities that have such legal or constitutional mandate. Therefore, it is suggested to evaluate the applicability of IFRS 6 criteria in the public sector.</p> <p>In this regard, it should be considered that the objective of financial reporting differs between IFRS and IPSAS. Under the IFRS Conceptual Framework, the objective is to provide useful financial information to investors, lenders and other existing and potential creditors to make decisions on the provision of resources to the entity. Whereas, according to the IPSAS Conceptual Framework, public sector entities raise resources from or on behalf of the community and use them for the purpose of carrying out activities for the benefit of members of that community or on their behalf. Therefore, the objective of IPSAS financial reporting is to provide useful information for general purpose users of financial reports for accountability and decision making purposes, i.e., taxpayers, donors, lenders and other providers of resources for use in the delivery of services to citizens and other recipients of services. Consequently, the IPSAS Conceptual Framework is not only about decision making, but also about accountability in the first instance.</p> <p>Furthermore, while the IFRS Conceptual Framework distinguishes qualitative characteristics of information into fundamental and enhancement characteristics, the IPSASB in its IPSAS Conceptual Framework doesn't adopt a similar classification or hierarchy. Instead, it argues that it is not appropriate to consider enhancement characteristics to be more important; rather, the IPSASB emphasizes that all characteristics are essential and that they operate together to increase the usefulness of the information.</p>

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	<p>In accordance with the above, the following inconsistencies have been identified in Exposure Draft ED 86:</p> <ul style="list-style-type: none"> <li>- It defines “Exploration and evaluation assets means exploration and evaluation expenditures recognized as assets in accordance with the entity’s accounting policy” (underlined out of text), thus defining one element of the financial statements related to financial position using another element related to financial performance. In this sense, it is not known that the IPSAS Conceptual Framework establishes that an asset is “A resource currently controlled by the entity as a result of a past event” and expenses are “Decreases in the entity’s net financial position other than decreases related to distributions to owners”.</li> <li>- Paragraph 14 states that: “An entity may change its accounting policies for exploration and evaluation expenditures 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”. This is in line with the hierarchy of qualitative characteristics in the IFRS Conceptual Framework, as relevance and faithful representation are considered fundamental. However, the IPSASB, with respect to the characteristics of financial information, establishes that each qualitative characteristic is essential and acts in conjunction with the others, so it doesn’t establish a hierarchy among them.</li> <li>- The definition of cost elements requires each entity to define an accounting policy that specifies which expenditures are recognized as exploration and evaluation assets and lists examples. Such examples, although not exhaustive, are limited to expenditures related to intangibles such as services or rights required for exploration and evaluation. However, for presentation purposes, paragraphs 16 and 17 state that exploration and evaluation assets are classified as tangible and intangible. Regarding tangible assets, it mentions vehicles or drilling rigs as examples. Therefore, the exposure draft isn’t consistent with each other and raises doubts as to whether tangible assets should be classified as property, plant or equipment or as exploration and exploitation assets. Additionally, it does not specify how the reclassification of exploration and evaluation assets should be when it no longer meets the criteria to maintain the asset in this classification. Therefore, it is suggested that the draft standard specifies that it doesn’t apply to assets that are within the scope of another IPSAS (for example, IPSAS 45 - Property, plant and equipment).</li> <li>- When the indications of impairment are listed, the question arises as to whether they are in fact indications of impairment or whether these facts and circumstances</li> </ul>

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	<p>correspond to guidelines for derecognition of intangible exploration and evaluation assets, given that the criteria for recognition as such are no longer met. For example, paragraph a) refers to the expiration of the period for which it has the right to explore. If this occurs, control is lost and, consequently, it no longer meets the criteria for recognition as an asset in the financial information. The same occurs when no discoveries are being made in the exploration and evaluation area and it is decided to discontinue such activities in that area; this does not respond to a situation of loss of value, but rather the entity evaluates and determines that it does not expect to obtain an economic benefit in that area, and therefore the recognized asset should be derecognized.</p> <ul style="list-style-type: none"> <li>- The IPSASB arguments supporting the following statement presented in paragraph FC9 are not included: “guidance that is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector”. It is suggested to develop why the treatment defined by IFRS 6 based on the opinion expressed by investors, lenders and other creditors is applicable to taxpayers, donors, lenders and other providers of resources for use in the provision of services to citizens and other service recipients.</li> <li>- The users of IFRS information are different from those of IPSAS, so IFRS 6 is aimed at entities that have obtained legal rights to explore a specific area in order to generate useful information for investors, lenders and other creditors. Whereas, users of public sector information are taxpayers, donors, lenders and other providers of resources for use in providing services to citizens and other service recipients. In addition, exploration and evaluation activities in Colombia are within the mission of government entities, so it is not necessary to obtain legal rights to explore a specific area. Thus, for the purposes of the development of this draft standard, it is not sufficient to limit itself to changes in terminology and other modifications of consistency and format specific to the IPSASB, as established by FC8.</li> </ul> <p>Likewise, it should be noted that, although the exposure draft is intended to specify the financial information for the exploration and evaluation of mineral resources, it doesn't make a broad development of the criteria required for the recognition of disbursements incurred as an asset or expense, but refers to IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors. Regarding measurement, no differential criteria are contemplated that would justify the issuance of a standard, since it refers to the standards for Property, plant and equipment and Intangible assets. Likewise, for the purpose of defining what is included in the cost of assets for exploration and evaluation, professional judgment based on IPSAS 3 is applied.</p>



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	<p>On the other hand, IPSASB ED 86 prioritizes technical aspects of accounting, such as recognition, measurement and disclosure of exploration and evaluation assets, but doesn't elaborate on how accounting policies affect accountability to external stakeholders. In addition, no specific guidance on potential social or environmental impact is included, which may result in reports that do not provide sufficient clarity on how operations affect local communities or resource providers to be consistent with the role of the public sector, which has as part of its mission to provide services that improve or maintain the well-being of the community.</p> <p>It also mentions facts and circumstances that indicate asset impairment, such as expiration of exploration rights or lack of commercial viability, but does not detail how these facts should be communicated so that stakeholders understand the impact beyond financial impairment, such as local economic development. Although the project addresses the financial risks associated with exploration and evaluation of mineral resources, there is insufficient guidance to include environmental, social or governance risks in the required disclosures. This implies the need to add additional requirements for users to better understand how mining operations affect the environment and communities.</p>